13 things you need to know about the new IRS Repair and Maintenance Regulations

By Jeff Bergman, CPA, Tax Manager

A new set of changes introduced on "Friday the 13th" in September could prove spooky for taxpayers, as the IRS and Treasury Department released final regulations providing guidance regarding the deduction and capitalization of expenditures related to tangible property.

Commonly known as the "repair and maintenance regulations", the guidelines modified and superseded the previous regulations that were temporarily issued in 2011. They affect all taxpayers that acquire, produce, or improve tangible property as of January, 2014. In what could be argued as evidence that the IRS has a (bad) sense of humor, there were 13 primary changes in addition to the adoption of the previous temporary regulations issued.

The ultimate objective was to simplify the property capitalization rules. However, the changes are inherently more complicated than before, as new rules have been added. In some cases these new rules also impact the cost of repairs and maintenance to existing business properties.

The full bullet-point list of the 13 changes can be found in this article posted in the Journal of Accountancy.

The changes served to alter a variety of important elements of maintaining and improving tangible property. Among other things, the new guidelines specifically addressed thresholds for property exempt from capitalization, regulations on rotable tools and temporary or spare parts, the de minimis rules, safe harbor standards, considerations for new acquisitions, and considerations for taxpayers that are members of consolidated groups. They also included a significant change for small taxpayers in that those with gross recipients of $10 million or less can elect to deduct, for buildings that initially cost $1 million or less, the lesser of $10,000 or 2% of the adjusted basis of the property for repairs or alterations each year. The regulations contains the adoption of many of the same property disposition rules from the previous temporary regulations.

These changes are not generally held to be a friendly development for taxpayers, and may provide the need for substantial adjustments to taxpayers' practices as they pertain to the capitalization or deduction of certain expenditures. Current taxable incomes may be increased as deductions for expenditures are delayed due to the need for capitalization.

You can review the pages and pages of documentation of the changes at the IRS website or contact the always helpful tax advisor Jeff Bergman, CPA for more information on this issue.