

**To expense or to capitalize?** If you buy, build, or repair business assets, you might ask that question when deciding whether your costs are currently deductible on your federal income tax return or whether they're considered capital improvements. Since deductions for capital improvements are typically spread over the life of an asset, the answer can be important even when accelerated depreciation methods are available.

New tax rules can make the expense-or-capitalize decision easier. These "repair regulations" provide guidelines and safe harbors to help you determine when certain purchases and expenditures are considered repairs, maintenance, improvements, materials, or supplies that can be deducted in the year of purchase. Here's an overview of safe harbor rules that may affect the way you classify expenses.

 **De minimis purchases.** In general, you can deduct the cost of tangible property purchased during a taxable year if the amount you pay for the property is less than \$500 per invoice, or per item. This is an all-or-nothing rule, meaning if an asset costs more than \$500, you cannot take a partial deduction.

To take the deduction, you'll need a written accounting policy in place by the beginning of your tax year, and you're required to file an annual statement with your federal tax return.

 **Repairs and maintenance.** You can expense costs for routine maintenance of buildings and other property. For buildings, "routine" means maintenance you expect to perform more than once in a ten-year period. The costs for material additions or defects or for adapting your property to a new or different use are not considered routine maintenance, and they should be capitalized. For other assets, "routine" is defined as maintenance you expect to undertake more than once during the asset's depreciable class life.

 **Improvements.** Generally, improvements you make to your business building are capitalized and depreciated over the life of the building. Under the new rules, if your business's gross receipts are \$10 million or less and the unadjusted basis of your building is \$1 million or less, you may choose to write off the cost of improvements.

You can make the election annually on a building-by-building basis for property you own or lease by filing a statement with your tax return. To qualify, the total amount you pay during the year for repairs, maintenance, and improvements cannot be greater than \$10,000 or 2% of the unadjusted basis of the building, whichever is less.

*Note:* The total includes amounts you deduct under the "repairs and maintenance" and "de minimis" safe harbors.

 **Materials and supplies.** Incidental materials and supplies costing less than \$200 can be expensed in the year of purchase.

The repair regulations will affect your 2014 federal income tax return. Please call us for additional information. ◆