

Effective for tax years beginning on or after January 1, 2014 the IRS has issued final regulations that make significant changes to the rules regarding when you must capitalize an expenditure as opposed to deducting it as a repair. For real property the new rules require you to consider the property as a structure with separate consideration for certain components within the structure. These components include systems such as HVAC, plumbing, electrical, fire protection, elevators and escalators among others. Under the new rules when you make an expenditure within one of the building components you are required to determine if the expenditure is an improvement or repair for that component as opposed to the building as a whole. The result of this new approach is that you are likely to have to capitalize items that you would have previously deducted as repairs.

The new regulations do provide a benefit for taxpayers that are capitalizing improvements. To the extent that the improvement replaces a pre-existing asset the taxpayer is allowed to write off the remaining tax basis of the old asset. Appropriate documentation of the remaining tax basis of the old asset is essential to obtain this benefit.

We are reviewing the new regulations and are applying them to each of your circumstances, on a case by case basis, to ensure compliance with these new rules and, if necessary, the filing of Form 3115.

Please don't hesitate to reach out for us if you have any questions regarding this matter.