MANUAL TRANSMITTAL

1.35.6

Department of the Treasury
Internal Revenue Service

APRIL 23, 2021

EFFECTIVE DATE

(04-23-2021)

PURPOSE

(1) This transmits revised IRM 1.35.6, Financial Accounting, Property and Equipment Accounting.

MATERIAL CHANGES

(1) Revised as necessary to follow new IRM format style.

(2) IRM 1.35.6.4, Property and Equipment Capitalization, updated to reflect current process.

(3) IRM 1.35.6.4.1, Information Technology Equipment, replaced table with paragraphs and updated to reflect current process.

(4) IRM 1.35.6.4.2, Non-IT Equipment, replaced table with paragraphs and updated to reflect current process.

(5) IRM 1.35.6.4.3, Furniture and Fixtures, updated to reflect current process.

(6) IRM 1.35.6.4.4, Internal Use Software, replaced table with paragraphs, updated to reflect current process, and removed process covered in another subsection.

(7) IRM 1.35.6.4.5, Investigative or Forensic Equipment, replaced table with paragraphs.

(8) IRM 1.35.6.4.6, Leasehold Improvements, revised to reflect current process.

(9) Previous IRM 1.35.6.5.2, IT Equipment Distribution for Refreshment vs. Equipment Repurpose, removed as it is irrelevant to this IRM chapter.

(10) IRM 1.35.6.5.2, Physical Security Protection, updated to reflect current process.

(11) IRM 1.35.6.7, Maintenance, Repair and Rehabilitation, edited to reflect current process.

(12) IRM 1.35.6.8, Impairment, added to reflect current process.

(13) IRM 1.35.6.9, Disposals and Missing Assets, deleted missing assets.

(14) Minor editorial changes were made throughout this document.

EFFECT ON OTHER DOCUMENTS

This IRM supersedes IRM 1.35.6, dated September 27, 2019, and incorporates Interim Guidance Memorandum CFO-01-1020-0001, Interim Guidance on Property and Equipment Accounting, dated December 21, 2020.

AUDIENCE

All business units.

Teresa R. Hunter
Chief Financial Officer

1.35.6
Property and Equipment Accounting

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1.35.6.1
(09-27-2019)
Program Scope and Objectives

(1) Purpose: To provide policy and guidance for recording property and equipment transactions, ensuring data integrity and accountability.

(2) Audience: All business units

(3) Policy Owner: CFO

(4) Program Owner: Financial Reporting office

(5) Primary Stakeholders: CFO and the IRS business units

(6) Program Goals: To maintain internal controls to ensure accurate and timely accounting treatment for property and equipment according to Federal Accounting Standards Advisory Board (FASAB) standards and Office of Management and Budget (OMB), Treasury, and IRS guidance.

1.35.6.1.1
(09-27-2019)
Background

(1) In October 1990, the Secretary of the Treasury, the Director, Office of Management and Budget, and the Comptroller General established the FASAB by a memorandum of understanding (MOU). The FASAB standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

(2) The IRS records property and equipment at full cost.

(3) The IRS checks the useful life categories periodically to verify reasonableness.

1.35.6.1.2
(09-27-2019)
Authorities

(1) The authorities for property and equipment policies are:

a. *Chief Financial Officers Act of 1990*, Pub. L. No. 101-576
b. 40 USC 524, *Duties of Executive Agencies*
c. *Federal Managers' Financial Integrity Act of 1982 (FMFIA)* Pub. L. No. 97-255
d. *E-Government Act of 2002*, Pub. L. No. 107-347
e. 31 USC 3512, *Executive Agency Accounting and Other Financial Management Reports and Plans*
f. 41 CFR, *Public Contracts and Property Management*, Chapters 101 and 102
g. 41 CFR Part 102-36, *Disposition of Excess Personal Property*

1.35.6.1.3
(09-27-2019)
Responsibilities

(1) This section assigns responsibilities for:

a. CFO and Deputy CFO
b. Associate CFO for Financial Management (FM) and Deputy Associate CFO for Administrative FM
c. Director, Financial Reporting office
d. Chief, Facilities Management and Security Services (FMSS)
e. Deputy Chief, FMSS
f. Office of Chief Procurement Officer (OCPO)
g. Chief Information Officer (CIO)
h. Program manager, IT Service Asset and Configuration Management (SACM)
i. Chief, CI
j. CI director, Field Operations
k. CI field offices

l. CI Management Information System (CIMIS) equipment coordinator
m. Business units

1.35.6.1.3.1
(09-27-2019)
CFO and Deputy CFO

(1) The CFO and Deputy CFO are responsible for overseeing compliance with accounting policies for Servicewide property and equipment.

1.35.6.1.3.2
(09-27-2019)
Associate CFO for Financial Management and Deputy Associate CFO for Administrative Financial Management

(1) The ACFO for FM and Deputy ACFO for AFM are responsible for providing Servicewide property and equipment guidance to the business units and offices, and ensuring the proper recording of property and equipment transactions on the financial statements.

1.35.6.1.3.3
(09-27-2019)
Financial Reporting Office

(1) The Financial Reporting office is responsible for:

a. Overseeing accounting procedures and internal controls for administrative property and equipment accounting.
b. Ensuring property and equipment transactions are accurately posted to the Asset Accounting Module (AAM).

1.35.6.1.3.4
(09-27-2019)
Chief, Facilities Management and Security Services (FMSS)

(1) The chief, FMSS, is responsible for setting Servicewide policies, procedures, standards and guidelines for purchasing and using furniture and equipment by:

a. Providing central oversight and guidance for managing property and equipment.
b. Planning, negotiating, executing and managing property and equipment procurement activities.
c. Conducting internal control reviews of property and equipment.

1.35.6.1.3.5
(09-27-2019)
Deputy Chief, FMSS

(1) The deputy chief, FMSS, is responsible for receiving, evaluating and disposing of foreign gifts, decorations and unconditional (in-kind) gifts tendered to IRS employees consistent with the Foreign Gifts and Decorations Act of 1966, amended (5 USC 7342) and Delegation Order 1-24 (FMSS Property and Asset Management Desk Guide).

1.35.6.1.3.6
(09-27-2019)
Office of the Chief Procurement Officer

(1) The OCPO is responsible for establishing, maintaining and ensuring purchases are in accordance with *Federal Acquisition Regulations*, *Department of the Treasury procurement policy and regulations*, *Internal Revenue Service Acquisition Policy (IRSAP),* and *Procedures, Guidance, and Information* (PGI) documents.

1.35.6.1.3.7
(09-27-2019)
Chief Information Officer

(1) The CIO is responsible for:

a. Managing all IRS IT resources.
b. Delivering and maintaining modernized information systems throughout the IRS, including information security policies, procedures and control techniques to address system security planning and all applicable needs.
c. Ensuring information systems maintain an approved security plan, are authorized to operate and have the ability for reporting of all security-related activities.

d. Designating a point of contact (POC) to coordinate all policy issues related to information systems security including: computer security, telecommunications security, operational security, certificate management, electronic authentication, disaster recovery (DR) and critical infrastructure protection related to cyber threats.

1.35.6.1.3.8
(09-27-2019)
Program Manager, IT Service Asset and Configuration Management

(1) The program manager, IT SACM, is responsible for:

a. Providing oversight, coordination and guidance on the asset management of IT equipment Servicewide within KISAM.
b. Performing analyses of the KISAM database and identifying anomalies.
c. Maintaining business rules for asset management processes.
d. Developing and improving asset management and control processes.
e. Providing direction to asset owners and IT staff for property and equipment activities to strengthen asset management processes and controls.
f. Ensuring accurate record-keeping in KISAM.

1.35.6.1.3.9
(09-27-2019)
Chief, CI

(1) The chief, CI, is responsible for:

a. Maintaining and coordinating the inventory, control and accountability of all CI investigative and non-investigative equipment.
b. Establishing uniform rules and guidelines for CI equipment assignment, use, application and loan to maintain proper security and to prolong service life.
c. Providing an electronic extract of Criminal Investigation Management Information System (CIMIS) data to requestors.
d. Allocating CI equipment to field offices.
e. Fulfilling all roles of a property manager including records accountability.
f. Coordinating CI procurement requirements with the Procurement office.
g. Ensuring accurate asset record-keeping in CIMIS.

1.35.6.1.3.10
(09-27-2019)
CI Director, Field Operations

(1) The CI director, Field Operations, is responsible for:

a. Maintaining an accurate record of all investigative equipment, investigative accessories and investigative supplies assigned to the director, Field Operations.
b. Designating an area CIMIS equipment coordinator responsible for training new operators and providing aide to the field office equipment coordinators within their area.

1.35.6.1.3.11
(09-27-2019)
CI Field Offices

(1) The CI Field Offices are responsible for maintaining an accurate record of all investigative equipment.

1.35.6.1.3.12
(09-27-2019)
Criminal Investigation Management Information System Equipment Coordinator

(1) The CIMIS equipment coordinator is responsible for:

a. Ensuring information for access to CIMIS is provided by new users to the CIMIS user administrator.
b. Ensuring all users are aware of security procedures.
c. Offering all excess equipment to all other field offices before disposal.

d. Ensuring physical inventory of investigative equipment is completed, documented and reported to the National Criminal Investigation Training Academy (NCITA) within the prescribed time frame in the fourth quarter of each fiscal year.

1.35.6.1.3.13
(09-27-2019)
Business Units

(1) The business units are responsible for complying with policies and procedures to requisition, purchase and safeguard property and equipment.

1.35.6.1.4
(09-27-2019)
Program Management and Review

(1) Program Reports - The IRS uses IFS as its official financial system of record and reports the historical cost, depreciation and net book value of property and equipment in its annual financial statements according to FASAB, OMB, and Treasury guidance.

(2) Program Effectiveness - The effectiveness is measured by ensuring that all asset classifications are valid and recorded timely at the appropriate thresholds.

1.35.6.1.5
(09-27-2019)
Program Controls

(1) The Financial Reporting office implements controls to ensure reasonable assurance that the property and equipment balances are accurate by:

a. Analyzing all property and equipment and certain expense transactions $50,000 and greater to verify they are classified correctly.
b. Reconciling property and equipment databases between AAM, KISAM and CIMIS.
c. Reconciling AAM to the general ledger.
d. Reviewing disposals.
e. Segregating duties and IFS access control.

1.35.6.1.6
(09-27-2019)
Terms and Definitions

(1) The following terms and definitions apply to this program.

a. **Acquisition cost** - The original cost of an asset to the government, which is the amount recorded in the financial and accounting records. This includes all costs incurred to bring the asset to a form and location suitable for its intended use.
b. **Asset** - Tangible or intangible items owned by the federal government that have probable economic benefits that can be obtained or controlled by a federal government entity.
c. **Book value** - The net amount at which an asset or a liability is carried on the books (also referred to as carrying value or amount). It equals the gross or nominal amount of an asset or liability minus any allowance or valuation amount.
d. **Capital asset** - Land (including park lands), structures, equipment (including motor and aircraft fleets) and intellectual property (including software), that are used by the federal government and that have an estimated useful life of two years or more.
e. **Capitalize** - To record a cost as an asset rather than an expense.
f. **Capital lease** - Any lease other than a lease-purchase that does not meet the criteria of an operating lease. Capital leases require full funding at the inception of the lease.
g. **Commercial Off-The-Shelf (COTS) software** - Software that is bought from a vendor and is ready to use with little or no changes.
h. **Criminal Investigation Management Information System (CIMIS)** - A database system used by Criminal Investigation (CI) to track asset man-

agement activities for the full life cycle of non-IT and sensitive law enforcement equipment from acquisition to disposal.

i. **Deferred maintenance and repairs (DM&R)** - Maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed to a future period.
j. **Depreciation** - The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.
k. **Direct costs** - Costs assigned to activities by direct tracing of units of resources consumed by individual activities. A cost that is specifically identified with a single cost object.
l. **Indirect costs** - Costs that cannot be identified specifically or traced to a given cost object economically.
m. **Impairment** - A significant and permanent decline in the service utility of general property and equipment or expected service utility for construction work in process.
n. **Internal use software (IUS)** - Software that is bought from commercial vendors “off-the-shelf,” internally developed, or contractor-developed, solely to meet the entity’s internal or operational needs.
o. **Internally developed software** - Software that employees are actively developing, including new software and existing or purchased software that is being modified with or without contractor’s assistance.
p. **Knowledge, Incident/Problem, Service and Asset Management (KISAM)** - An inventory system for all accountable IRS property and equipment, except for leasehold improvement, software, investigative equipment, and vehicles. Investigative equipment and vehicles are recorded in CIMIS. The KISAM Asset Manager module is used to track asset management activities for full life cycle of IT and non-IT hardware from acquisition to disposal.
q. **Lease-purchase** - A type of lease where ownership of the asset is transferred to the government at or shortly after the end of the lease term.
r. **Net book value** - The net amount an asset or group of assets is carried on the books. It is based on the historical cost (gross amount) of the asset less any depreciation, amortization, or impairment costs against the asset.
s. **Product Category Code (PCC) or Material Group Code (MGC)** - A data element used to group materials and services according to their characteristics. The PCC/MGC can be associated with one commitment item and more than one Federal Supply Codes (FSC).
t. **Operating Lease** - An agreement conveying the right to use property for a specified time in exchange for periodic rental payments.
u. **Rehabilitation** - The restoration or renovation of serviceable or operable articles to near-new condition or the repair of unserviceable or inoperable articles when the overall aim is to restore or renovate articles to a near-new condition.
v. **Shopping cart** - The official Procurement Public Sector (PPS) requisition document submitted by an end user, a program office or a contracting officer’s representative (COR), for acquiring property and equipment, supplies or services through an appointed procurement office via a warranted Contracting Officer.
w. **Service utility** - The expected usable capacity at acquisition.
x. **Useful life** - The expected operating life of an asset.

1.35.6.1.7
(09-27-2019)
Acronyms

(1) The following acronyms apply to this program.

ACRONYM	DESCRIPTION
AAM	Asset Accounting Module
CIMIS	Criminal Investigation Management Information System
COTS	Commercial Off-the-Shelf
GAAP	Generally Accepted Accounting Principles
IFS	Integrated Financial System
IUS	Internal Use Software
KISAM	Knowledge, Incident/Problem, Service and Asset Management
LHI	Leasehold Improvements
NPV	Net Present Value
NRV	Net Realizable Value
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
UNS	User and Network Service

1.35.6.1.8
(09-27-2019)
Related Resources

(1) OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*

(2) OMB Circular No. A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, Appendix C: Discount Rates for Cost-Effectiveness, Lease-Purchase, and Related Analyses for OMB Circular No. A-94

(3) OMB Circular No. A-136, *Financial Reporting Requirements*

(4) SFFAS No. 5, *Accounting for Liabilities of the Federal Government*

(5) SFFAS No. 6, *Accounting for Property, Plant, and Equipment*

(6) SFFAS No. 10, *Accounting for Internal Use Software*

(7) SFFAS No. 42, *Deferred Maintenance and Repairs*

(8) SFFAS No. 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

(9) IRM 1.14.4, Personal Property Management

(10) IRM 2.149.1, Asset Management Policy

(11) IRM 2.149.2, Asset Management Process Description

(12) IRM 2.149.3, Asset Management Hardware Procedures

(13) IRM 2.149.4, Asset Management Software Procedures

(14) IRM 9.10.1, Criminal Investigation Management Information System Equipment Inventory

(15) IRM 9.11.3, Investigative Property

(16) *Procurement Policy Framework*

(17) *Financial Management Codes Handbook*

1.35.6.2
(09-27-2019)
Acquisition of Goods and Services

(1) This section provides guidance on procuring goods and services.

1.35.6.2.1
(09-27-2019)
Shopping Cart Process

(1) Requester electronically prepares and tracks shopping carts (requisitions) in the PPS module. The shopping cart must be complete and contain the proper approvals, technical documentation and funding information to be acceptable for processing. The requester, approver, and financial plan manager validate the accounting string and ensure the product category code (PCC) complies with the *Financial Management Codes Handbook*.

(2) See *Procurement 101 Acquisition Guidebook for Customers* for more information.

1.35.6.2.2
(09-27-2019)
Procurement Process

(1) Procurement is responsible for the centralized purchase of goods and services for their assigned business units.

a. Procurement staff use the PPS module to generate shopping cart documents for executing new orders, modifying existing orders and obligating funds.
b. See *Procurement Policy Framework and IFS-PPS Resource Center* for more information.

1.35.6.2.3
(09-27-2019)
Receipt and Acceptance Process

(1) See IRM 1.35.3, Receipt and Acceptance Guidelines, for more information.

1.35.6.3
(09-27-2019)
Recording Property and Equipment Transactions

(1) The Financial Reporting office Property and Equipment section is responsible for ensuring property and equipment is recorded correctly and presented fairly in the financial statements and conforms to GAAP and OMB guidance. This includes:

a. Budgeting: Property and equipment purchases are charged to appropriations for Taxpayer Services, Enforcement, Operations Support and Business Systems Modernization.
b. Reclassifying and recording: The Financial Reporting office extracts and compiles capitalized amounts for internal use software and leasehold improvements initially recorded as an operating expense, reclassifies assets and expenses, and records gains and losses on disposals.

c. Financial reporting: Net property and equipment and capital leases are reported on the balance sheet, depreciation expense, gains, and losses are reported as a program cost or earned revenue on the Statement of Net Cost.

1.35.6.4
(04-23-2021)
Property and Equipment Capitalization

(1) This section provides guidance for the capitalization and depreciation of property and equipment.

(2) According to SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, property and equipment must meet the following criteria to be capitalized:

a. Have an estimated useful life of two or more years.
b. Not be intended for sale in the ordinary course of operations.
c. Be acquired, constructed or developed with the intention of being used or available for use by the entity.

(3) Property and equipment categories consist of:

a. IT equipment
b. Internally developed software/internal use software
c. Leasehold improvements
d. Vehicles
e. Non-IT equipment
f. Assets under capital lease
g. Laboratory or forensic equipment

(4) The useful life of an asset is determined by factors such as physical wear and tear and technological changes that affect the asset's economic usefulness.

(5) Capitalized cost includes all costs necessary to bring the asset to the form and location for its intended use, such as amounts paid to vendors, transportation, handling and storage, labor, installation, integration, and other direct and indirect production costs.

(6) In general, single item or bulk purchases of $50,000 or more are capitalized and depreciated over the asset's useful life.

(7) The following table summarizes the threshold value and useful life for each type of capitalized property and equipment:

EQUIPMENT	THRESHOLD VALUE	USEFUL LIFE
Mainframe Computer Systems and Servers	$50,000	7 years
Telecommunications Equipment	$50,000	7 years
Non-IT Equipment	$50,000, or $5,000 if barcoded	10 years
Internal Use Software	$10 million per year or $50 million over software life cycle	Assessed case by case

Mainframe, server, or telecommunications software licenses	$50,000	7 years
Laboratory or Forensic Equipment	$50,000	10 years
Vehicles	All	5 years
Leasehold Improvements	$50,000	10 years or the remaining life of the lease, whichever is shorter
Assets under Capital Lease	$50,000	Assessed case by case

1.35.6.4.1
(04-23-2021)
Information Technology Equipment

(1) IT equipment generally consists of mainframes, servers, laptops, desktops, and telecommunications equipment.

(2) Cost of mainframe computer systems, servers, and telecommunications equipment is capitalized when the purchase is equal to or greater than $50,000 and depreciated over a useful life of 7 years.

(3) Capitalized cost may include costs of related equipment and software if the equipment and software is integral in the functioning of the capitalized asset. For example, if the software is necessary to operate the mainframe computer system rather than to perform an application, the software is considered part of the mainframe computer and is capitalized and depreciated, accordingly.

(4) Capitalized cost may also include other costs necessary to bring the asset to a form and location suitable for its intended use, such as shipping, barcoding and installation.

(5) Equipment not integral to the functioning of the capitalized asset should be considered separately for capitalization criteria. For example, if the software is not necessary to operate the mainframe computer system, the software is not considered an integral part of the mainframe computer system and should be considered separately for capitalization criteria.

(6) Costs not necessary to bring the capitalized asset to a form and location suitable for its intended use, such as maintenance, warranty, relocation, reinstallation, and removal of existing wiring, should be expensed in the period incurred.

(7) Laptops, desktops, tablets, and IT peripherals such as monitors, keyboards, mice, hard drives, memory upgrades, printers, desktop scanners, and braille equipment are not capitalized.

(8) The User and Network Service (UNS) staff maintains inventory records for IT equipment and is responsible for updating inventory records for final asset disposition.

1.35.6.4.2 (09-27-2019) Non-IT Equipment

(1) In general, cost of non-IT equipment is capitalized when the purchase, including the costs to bring the asset to a form and location suitable for its intended use (i.e. components, shipping, installation, configuration, asset tagging, etc.), is equal to or greater than $50,000, or an individual item costs $5,000 or more and is barcoded.

(2) Capitalized non-IT equipment is depreciated over a useful life of 10 years.

(3) Non-IT equipment includes, but is not limited to:

a. Automated file storage equipment
b. Equipment for producing, storing and viewing microforms
c. Document processing equipment for photocopies, mail and check handling, and shredders
d. Television studio, cameras and other photographic equipment
e. Printing and binding equipment
f. Office equipment, devices and machines other than IT equipment
g. Uninterruptible power supplies (UPS)

(4) The FMSS territory staff maintains inventory records for non-IT equipment and is responsible for updating inventory records for final asset disposition.

1.35.6.4.3 (04-23-2021) Furniture and Fixtures

(1) Purchases of furniture and fixtures, with the exception of those related to leasehold improvements, are not capitalized.

1.35.6.4.4 (09-27-2019) Internal Use Software

(1) Internal use software (IUS) consists of Commercial Off-the-Shelf (COTS) software and internally developed software and is capitalized and amortized over the useful life according to SFFAS No. 10, *Accounting for Internal Use Software* and FASAB Technical Release 16, *Implementation Guidance for Internal Use Software*.

(2) COTS cost equal to or greater than $50,000 is capitalized if the useful life is two or more years, except for software installed on laptops or desktops which is expensed.

(3) For COTS software, capitalized cost includes amounts paid to vendor for the software, and the useful life is seven years, which matches the useful life of the machine on which the software runs.

(4) For internally developed software, capitalized cost includes both direct and indirect cost (full cost) incurred during the software development stage, such as salaries of programmers, system analysts, project managers, and administrative personnel, associated employee benefits, outside consultant’s fees, rent, supplies, and documentation manual. The IRS capitalizes these costs incurred after:

a. Management authorizes and commits to the computer software project and believes that the IRS will more likely complete the project and use the software to perform the intended function with an estimated service life of 2 years or more, and
b. Conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage) are completed.

(5) Cost incurred during the preliminary design stage (i.e., conceptual formulation, design, and testing of alternatives) and cost incurred after software deployment (i.e., data conversion, maintenance and support) are expensed.

(6) COTS that is an integral part of the internally developed software should be capitalized as part of the internally developed software and depreciated, accordingly.

(7) Any IT or non-IT equipment purchased in conjunction with a capitalized IUS that is not an integral part of the IUS is treated separately.

(8) For internally developed software, the useful life is determined for each project with input from the respective IT project office.

(9) The IRS IT Governance and Executive Steering Committee monitors and certifies the internally development software project life cycle.

(10) The following criteria is used to identify major internally developed software projects subject to capitalization:

a. The project/program that the software is intended to support must have a total annual budget of $10 million or greater during any one year or estimated cumulative project costs over $50 million over the five-year period of performance.
b. The project/program must be identified as a “Major Project” according to the IT dashboard submitted by the Department of the Treasury for all bureaus.
c. The project/program must be for new systems or major enhancements to existing systems.

(11) Costs for internal use software are accrued in an in-development account. Upon completion of the final acceptance testing and the software is placed in service, costs in the in-development account are transferred to the deployed systems account and amortization begins. Costs incurred after deployment are expensed.

1.35.6.4.5
(09-27-2019)
Investigative or Forensic Equipment

(1) Investigative or forensic equipment is capitalized when the cost of the equipment and other cost to put the equipment into service is $50,000 or more.

(2) Enforcement equipment, such as firearms, surveillance and night vision equipment, telescopes, optical equipment, and body armor, are expensed.

1.35.6.4.6
(09-27-2019)
Leasehold Improvements

(1) Leasehold improvements (LHI) are alterations to leased property that extend the useful life of leased space or increase the usefulness of the leased space including:

a. Building alterations.
b. Additions permanently attached to or part of a building, including plumbing, power-plant boilers, fire alarm systems, refrigerating systems, security systems, flooring, and carpeting.
c. Improvements to land, including landscaping, fences, sewers and parking lots.

(2) LHI cost equal to or greater than $50,000 per award line is capitalized.

(3) LHI costs are tracked in a construction-in-progress account until the project is complete.

(4) LHI is depreciated over 10 years or the remaining lease term, whichever is shorter.

1.35.6.4.7
(07-26-2016)
Assets Under Capital Leases

(1) The IRS accounts for capital leases according to SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* and SFFAS No. 6, *Accounting for Property, Plant, and Equipment.*

(2) A lease is classified as a capital lease when the award line is equal to or greater than $50,000, the useful life of the asset is two or more years, and the lease meets at least one of the following criteria at inception:

a. The lease transfers ownership of the personal property to the lessee by the end of the lease term.
b. The lease contains an option to buy the leased property at a bargain price.
c. The lease term is equal to or greater than 75 percent of the estimated useful life of the leased property.
d. The Net Present Value (NPV) equals or exceeds 90 percent of the fair market value of the leased property.

(3) The amount capitalized is the amount recognized as a liability, determined as the lesser of the NPV of rental and other minimum lease payments, excluding executory costs, or the fair market value of the leased asset. The NPV is determined by using the nominal interest rates published in *Appendix C: Discount Rates for Cost-Effectiveness, Lease-Purchase and Related Analyses for OMB Circular No. A-94*, which is updated annually.

(4) Assets under capital leases are depreciated over the useful life of the asset.

(5) Leases not meeting the criteria for capital lease are operating leases and are expensed.

(6) Capital leases are fully funded in the first year according to OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*. Capital leases with another agency are funded annually.

1.35.6.4.8
(05-05-2014)
Treasury Franchise Fund

(1) The IRS does not capitalize property and equipment bought and held by the Treasury Franchise Fund (TFF). Depreciation of TFF allocated to the IRS by Treasury is based on pro rata share of usage.

1.35.6.4.9
(07-26-2016)
Vehicles

(1) Vehicles are purchased or leased.

(2) Purchased vehicles are capitalized and depreciated over a five-year useful life.

(3) Vehicle leases are analyzed to determine if the criteria for capital lease under IRM 1.35.6.4.7, Assets Under Capital Lease, are met.

1.35.6.5
(10-01-2010)
Inventory

(1) This section provides information on systems used for inventorying assets.

1.35.6.5.1
(07-26-2016)
Inventory Systems

(1) KISAM and CIMIS are inventory systems that are used to record and track property and equipment. These systems are not integrated into IFS.

(2) The KISAM Asset Manager module is used to record and manage property and equipment from the time it is received at IRS premises from a vendor or other external source until the time of its disposal or transfer out of the IRS. IRS users must enter receipt and acceptance information about acquired assets in both KISAM and IFS. See KISAM guidelines in: *Asset Management IRM Policies and Procedures*. See IRM 1.35.5 Receipt and Acceptance Guidelines.

(3) CI tracks investigative equipment and CI vehicles in CIMIS. See CIMIS guidelines in IRM 9.10.1, Criminal Investigation Management System Equipment Inventory.

1.35.6.5.2
(05-05-2014)
Physical Security Protection

(1) To comply with Department of the Treasury, Interagency Security Committee (ISC), and IRS protection standards and policies, the IRS has established physical security protection methods.

(2) Due to monetary value, importance, or vulnerability posed by its loss or compromise, specific IRS assets or equipment may require security measures in addition to being within secured IRS spaces.

(3) See IRM 10.2.14, *Methods of Providing Protection,* and IRM 10.2.15, *Minimum Protection Standards,* for more information.

1.35.6.5.3
(05-05-2014)
Physical Inventory

(1) IRM 1.14.4, *Personal Property Management*, specifies that no employee can be responsible for two or more of the following duties: acquiring property, receiving property, and recording property in inventory.

1.35.6.6
(07-26-2016)
Reconciliation of IFS to KISAM

(1) The Financial Reporting office performs a reconciliation to ensure that capitalized property and equipment transactions in IFS AAM are properly recorded in KISAM.

1.35.6.7
(07-26-2016)
Maintenance, Repair and Rehabilitation

(1) Federal agencies must fulfill property needs through redistribution, repair, or rehabilitation of already-owned furniture and office equipment.

(2) The General Services Administration, Regional Federal Supply Schedule offices, assist federal agencies by providing maintenance, repair and rehabilitation services. The services are through contracts with commercial firms, agreements with the National Industries for the Blind, and with federal repair facilities such as those supplied by the Federal Prison Industries.

(3) See IRM 1.14.4, *Personal Property Management*; IRM 2.149.1, *Asset Management Policy*; IRM 2.149.2, *Asset Management Process Description*; IRM 2.149.3, *Asset Management Hardware Procedures*; IRM 2.149.4, *Asset Management Software Procedures*; and IRM 9.11.3, *Investigative Property;* for procedures and guidelines for the maintaining and repairing property and equipment.

1.35.6.8
(04-23-2021)
Impairment

(1) The IRS recognizes impairment for IUS according to SFFAS No. 10, *Accounting for Internal Use Software.*

(2) The IRS does not impair other general property and equipment per SFFAS No. 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use,* as these assets are repaired, replaced, or disposed of when damaged or obsolete.

(3) For software in development, when it is determined that the software will not be completed and placed in service, the related book value accumulated in the in-development account is reduced to reflect the NRV, if any, and a loss is recognized.

(4) For post-implementation or operational software, impairment is recognized when:

a. The software no longer provides substantive service potential and will be removed from service, or
b. A significant reduction occurs in the capabilities, functions, or uses of the software.

(5) For projects that are impaired but remain in use, the loss is determined as the difference between the book value and either:

a. The cost to acquire software that would perform similar remaining functions (i.e., unimpaired functions), or
b. The portion of the book value attributable to the remaining functional elements of the software.

(6) If the loss cannot be determined by either method, the book value of the software is amortized over the remaining useful life of the software. If the impaired software is removed from use, the loss is the difference between the book value and any NRV. The NRV of the impaired software is transferred to an appropriate asset account until such time the software is disposed of.

1.35.6.9
(07-26-2016)
Disposals

(1) The disposal process removes property and equipment due to obsolescence, loss, theft, damage or erroneous records.

(2) UNS and CI send disposal information from KISAM and CIMIS to the Financial Reporting office. The Financial Reporting office analyzes the information and compares it to what is recorded in AAM. Additional analysis is performed at year-end for assets older than 10 years. Adjustments are recorded in IFS for asset balances that are greater than those in KISAM or CIMIS.

(3) See IRM 1.14.4, Personal Property Management; IRM 2.149.1, Asset Management Policy; IRM 2.149.2, Asset Management Process Description; IRM 2.149.3, Asset Management Hardware Procedures; IRM 2.149.4, Asset Management Software Procedures; IRM 9.10.1, Criminal Investigation Management Information System Equipment Inventory; and IRM 9.11.3, Investigative Property; for disposals of IRS property and equipment.