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Rethinking the Analysis to Expense or Capitalize Under the New “Repair” Regulations

American Institute of Certified Public Accountants



<http://www.aicpa.org/INTERESTAREAS/TAX/Pages/TaxHomepage.aspx>



Today's Agenda

- Overview and Impact
- Technical Aspects
- Preparer Considerations



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See Resource Materials for relevant guidance.



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OVERVIEW AND IMPACT



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Overview

- What has changed?
- Why were the changes made?
- Who do the changes apply to?
- When are the changes effective?



Impact on Preparers

- Proposed and final regulations
- Technical updates
- Resistance
- Relief

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TECHNICAL ASPECTS



Asset Life Cycle



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Materials and Supplies*

- Maintain, repair, or improve a unit of tangible property
- Fuel, lubricants, water, and similar items
- Economic useful life of 12 months or less
- Acquisition or production cost of \$200 or less
- Rotable and temporary spare parts
- Standby emergency spare parts

**Reg. § 1.162-3*



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Materials and Supplies (*cont.*)*

- De minimis safe harbor
- Incidental → deduct when purchased
- Non-incidentl → deduct when first used or consumed
- De minimis (\$200) → deduct when purchased

**Reg. § 1.162-3*



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Repairs and Maintenance*

- Routine maintenance safe harbor
 - Special rule for buildings
 - Electing treatment
- Election to capitalize repairs
 - Book treatment same as tax

**Reg. § 1.162-4 and Reg. § 1.263(a)-3*



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Capital Expenditures*

- Betterments
- Restoration
- Adaptations

**Reg. § 1.263(a)-1 and Reg. § 1.263(a)-3*



Form 3115

Form **3115**

(Rev. December 2009)
Department of the Treasury
Internal Revenue Service

Application for Change in Accounting Method

OMB No. 1545-0152

Name of filer (name of parent corporation if a consolidated group) (see instructions)		Identification number (see instructions)	
		Principal business activity code number (see instructions)	
Number, street, and room or suite no. If a P.O. box, see the instructions.		Tax year of change begins (MM/DD/YYYY)	
		Tax year of change ends (MM/DD/YYYY)	
City or town, state, and ZIP code		Name of contact person (see instructions)	
Name of applicant(s) (if different than filer) and identification number(s) (see instructions)		Contact person's telephone number	

If the applicant is a member of a consolidated group, check this box

If **Form 2848**, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box

Check the box to indicate the type of applicant.

- | | |
|--|--|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Cooperative (Sec. 1381) |
| <input type="checkbox"/> Corporation | <input type="checkbox"/> Partnership |
| <input type="checkbox"/> Controlled foreign corporation (Sec. 957) | <input type="checkbox"/> S corporation |
| <input type="checkbox"/> 10/50 corporation (Sec. 904(d)(2)(E)) | <input type="checkbox"/> Insurance co. (Sec. 816(a)) |
| <input type="checkbox"/> Qualified personal service corporation (Sec. 448(d)(2)) | <input type="checkbox"/> Insurance co. (Sec. 831) |
| <input type="checkbox"/> Exempt organization. Enter Code section ▶ | <input type="checkbox"/> Other (specify) ▶ |

Check the appropriate box to indicate the type of accounting method change being requested. (see instructions)

- | |
|---|
| <input type="checkbox"/> Depreciation or Amortization |
| <input type="checkbox"/> Financial Products and/or Financial Activities of Financial Institutions |
| <input type="checkbox"/> Other (specify) ▶ |

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PREPARER CONSIDERATIONS



Client Communications

- Issue awareness
 - Client letters
 - Newsletter/email campaign
- Informed acceptance
 - Organizers
 - Engagement letters



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Preparer Due Diligence

- Technical knowledge
- Analysis and recommendations
- Policies and elections
- Workpaper documentation
- Signing return



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RESOURCE MATERIALS



Treasury Decisions

T.D. 9689 - Guidance Regarding Dispositions of Tangible Depreciable Property (Aug. 2014)

http://www.irs.gov/irb/2014-36_IRB/ar06.html

T.D. 9636 - Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property (Sept. 2013)

http://www.irs.gov/irb/2013-43_IRB/ar05.html

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Revenue Procedures

Rev. Proc. 2015-20, simplified procedures for small business taxpayers to make certain tangible property changes in methods of accounting that takes into account only amounts paid or incurred, and dispositions in taxable years beginning on or after Jan. 1, 2014 (Feb. 13, 2015)

<http://www.irs.gov/pub/irs-drop/rp-15-20.pdf>

Rev. Proc. 2015-14, provides the list of automatic changes to which the automatic change procedures in Rev. Proc. 2015-13 will apply (Jan. 16, 2015)

<http://www.irs.gov/pub/irs-drop/rp-15-14.pdf>



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Revenue Procedures (*cont.*)

Rev. Proc. 2015-13, general procedures to obtain both the advance (non-automatic) and automatic consent to change a method of accounting (Jan. 16, 2015)

<http://www.irs.gov/pub/irs-drop/rp-15-13.pdf>

Rev. Proc. 2014-54, provides procedures for taxpayers to adopt the new disposition regulations (Sep. 18, 2014)

<http://www.irs.gov/pub/irs-drop/rp-14-54.pdf>



Revenue Procedures (*cont.*)

Rev. Proc. 2014-17, provides procedures governing the treatment of expenditures incurred in acquiring, producing, or improving tangible assets (Feb. 28, 2014)

<http://www.irs.gov/pub/irs-drop/rp-14-17.pdf>

Rev. Proc. 2014-16, provides procedures for taxpayers to adopt the final "repair" regulations (Jan. 24, 2014)

<http://www.irs.gov/pub/irs-drop/rp-14-16.pdf>



Forms, Publications, & More

Tangible Property Regulations - Frequently Asked Questions

<http://www.irs.gov/Businesses/Small-Businesses-%26-Self-Employed/Tangible-Property-Final-Regulations>

Form 3115, *Application for Change in Accounting Method*

<http://www.irs.gov/pub/irs-pdf/f3115.pdf>

Instructions for Form 3115

<http://www.irs.gov/instructions/i3115/index.html>

Publication 538, *Accounting Periods and Methods*

<http://www.irs.gov/pub/irs-pdf/p538.pdf>

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Ethics Resources

Circular 230

<http://www.irs.gov/pub/irs-utl/pcir230.pdf>

AICPA Statements on Standards for Tax Services

<http://www.aicpa.org/interestareas/tax/resources/standardsethics/pages/default.aspx>

AICPA Code of Conduct

<http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx>

NAEA Code of Ethics and Rules of Professional Conduct

<http://www.naea.org/about-naea/governance/code-ethics-rules-conduct>

NATP Code of Ethics

<http://www.natptax.com/AboutNATP/WhatIsNATP/Pages/CodeofEthics.aspx>



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QUESTIONS





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Thank You!

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