

Frequently Asked Questions:



► Why are the new repair regulations important?

Recently, the Internal Revenue Service released final regulations addressing the treatment of repairs and maintenance expenses for federal income tax purposes. The new regulations affect ALL taxpayers with tangible property. They go way beyond just repairs and change the treatment of repairs and maintenance, materials and supplies, spare parts and acquisition costs. The rules represent a significant change for most taxpayers. The new rules are highly subjective, extremely complex and include numerous traps for unsophisticated taxpayers. Undoubtedly, the new rules will increase your annual reporting and compliance burden.

► Is my business required to comply with the regulations?

Yes. Compliance with the new regulations is mandatory for tax years beginning on or after January 1, 2014. Failure to comply with the new regulations can result in the assessment of additional tax, interest and penalties at both a federal and state level.

► What aspects of my business are impacted by the new regulations?

The new regulations impact the manner in which your business treats repair and maintenance expenditures for income tax purposes. Items you have expensed in the past may now be required to be capitalized and vice versa. Effectively, the regulations require us to look back to past years and determine which items were expensed under prior rules, even properly expensed items, which are now required to be capitalized under the new regulations.

► Why do I need to involve JLK Rosenberger in the process?

The new regulations are extremely complex. In general, these changes make it more likely that your business will be required to capitalize rather than expense certain repair and maintenance costs. It is anticipated that most businesses will need to file one or more Form 3115s (Change in Accounting Method) to comply with the regulations. Completing this filing will generally require at least some analysis of the expenditures for repairs and maintenance, materials and supplies, and rotatable spare parts to determine the reporting and dollar impact of those changes.

The regulations also outline a number of tax and safe harbor elections that can be made including routine maintenance safe harbor, de minimis expensing, small taxpayer safe harbor, incidental materials and supplies and capitalizing repair and maintenance costs. Implementing required policy changes and ensuring consistency with financial reporting should be done sooner rather than later.

► What does this really mean in plain language?

JLK Rosenberger needs to analyze your past expenditures to determine which items were expensed that should have been capitalized and depreciated and vice versa. We will then need to file the appropriate forms with the IRS. If the process determines that you have understated income under the new rules, you will have an increase to income for 2014, 2015, 2016, and 2017 (25% each year). If we do not do this, then under IRS examination, the government will perform its own analysis and will apply the additional tax, interest, penalties in the earliest year possible without the 4-year spread.

The new regulations affect all taxpayers with tangible property and represent a significant change for most taxpayers.