

IRS Increases *De Minimis* Capitalization Threshold under IRS Tangible Property Regulations

The IRS Tangible Property Regulations that went into effect in 2014 permit taxpayers to make an annual *de minimis* safe harbor election. The election allowed (i) taxpayers with an applicable financial statement (for dealers this is typically an audit) to deduct those items that they also deduct for financial reporting purposes pursuant to a book accounting policy up to \$5,000 per item or invoice, and (ii) taxpayers without an applicable financial statement to deduct for financial reporting purposes pursuant to a book accounting policy up to \$500 per item or invoice.

The IRS announced in [Notice 2015-82](#) that it has increased the *de minimis* capitalization safe harbor threshold from \$500 to \$2,500 for taxpayers without applicable financial statements effective for costs incurred in tax years beginning on or after January 1, 2016. However the IRS has indicated that they will not raise the issue on examination for taxable years beginning before January 1, 2016 for items up to \$2,500. The *de minimis* capitalization safe harbor threshold remains at \$5,000 for taxpayers with applicable financial statements.

This means that dealers have an opportunity to expense for tax purposes most fixed asset purchases up to \$2,500 (or \$5,000 with audited financial statements) dependent on the same amount being deducted for book purposes. These costs would otherwise be capitalized and subject to depreciation. Dealers may set a policy of a lesser amount that fits their business needs and still rely on the safe harbor up to the amount of their policy.

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