IRS Releases New Regulations for Deductible Business Repairs

by Joseph M. Donegan on October 4, 2013

The Internal Revenue Service released a new set of guidelines governing tax-deductible business repairs, which may finally put an end to disputes and challenges between the federal tax agency and companies.

The new rules, which broaden the scope of business expenditures that may qualify as deductible asset repairs, may help limit the number of corporate tax audits the agency takes on each year, especially as it seeks to operate within a tightened budget. The regulations may also help companies reduce their liability, as they may now deduct costs that were previously prohibited under the law. The final guidelines, which replace temporary rules that have been in place since December 2011, will affect all taxpayers who acquire, produce, or improve tangible property.

The IRS raised many dollar-amount thresholds, including the previous $100 threshold for property that is exempt from capitalization to $200. The agency also changed the treatment of additional costs of acquiring property subject to the safe harbor to include additional invoice costs, such as delivery fees. The final rules simplify the de minimis safe harbor by requiring that all materials and supplies be included if taxpayers elect to use the safe-harbor method. The IRS will also allow business owners with gross receipts of $10 million or less to elect to deduct, for buildings that initially cost $1 million or less, the lesser of $10,000 or 2 percent of the adjusted basis of the property for repairs.

The IRS has been working on these tangible property repair regulations since 2004, and the updated version of the tax law will go into effect on January 1, 2014. As the rules - which are outlined in a 220-page document - are final and quite expansive, business owners should consider contacting a legal or tax professional to learn more about their options and obligations under the new guidelines.