

IRS Delays Application of Repair Regs Until 2014

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On December 23, 2011, the IRS issued long-awaited temporary and proposed regulations regarding the treatment of expenditures incurred in selling, acquiring, producing or improving tangible assets. These rules, as proposed, were, generally to be effective for tax years beginning on or after January 1, 2012 and would require many (if not most) taxpayers to submit requests to the IRS for permission to make changes in their methods of accounting with respect to (among other things):

- Accounting for, and the expensing of, the costs of materials and supplies;
- Amounts paid to acquire or produce tangible property (both real and personal)
 - Including cost recovery through depreciation
- Amounts paid to improve tangible property
 - Including determination of what constitutes "repairs" and "improvements"
 - Including cost recovery through depreciation

Taxpayers Given More Time to Comply

The IRS has indicated that it plans to make some changes to the proposed regulations. Some of the provisions that may be revised are:

- De minimis rule under Temp. regs. section 1.263(a)-2T9G
- Dispositions T.R. section 1.168(i)-1T and 1.168(i)-8T
- Safe harbor for routine maintenance under T.R. 1.263(a)-eT(g).

Rather than forcing taxpayers to make the changes required under the original proposal and to then make further changes under the final regulations, the IRS has delayed the effective date of the temporary regulations to taxable years beginning after January 1, 2014. Taxpayers who choose to do so, however, will still be allowed to adopt the new rules as of the original effective date in order to take immediate advantage of those provisions which are particularly advantageous to their situation.

For details on the temporary regulations, see the related article "Repairs versus Improvements: New Rules for Deductibility and Tax Saving Opportunities" dated August 20, 2012. If you have any questions please do not hesitate to contact Jackie Matsumura or Michael Schaffer.