Tangible Property Regulations

Often overlooked, TPR can offer significant savings for business owners

INTERVIEWED BY ADAM BURROUGHS

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The IRS issued the Tangible Property Regulations (TPR) in 2013 and many taxpayers overlooked or didn't pay much attention to them. Now businesses are catching up, realizing TPR offers significant savings if used properly. The regulations provide taxpayer-friendly rules to immediately deduct certain costs versus capitalizing and depreciating.

"These regulations cover a wide variety of topics, such as materials and supplies, repairs and maintenance, capital expenditures and amounts paid for the acquisition of tangible property," says Dennis Murphy Jr., CPA, CCA, a senior manager at Skoda Minotti. "It's important to be familiar with these regulations and the recent updates as we've seen them affect most companies we work with — large and small, public and private, even individual owners of rental properties."

Smart Business spoke with Murphy about TPR and what business owners should know.

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What has changed with TPR that business owners should know about?

TPR allows taxpayers to immediately deduct the payments made for tangible property under a certain monetary threshold, called the de minimis safe harbor. The IRS deduction limit was $500 when TPR first debuted, but for the tax years beginning January 2016, the limit has increased to $2,500 for those taxpayers without a financial statement audit.

The de minimis safe harbor is an election and must be made each year on your tax return. It is applied per item, so if you buy 150 computers at $2,000 each, you can deduct each computer.

Although the IRS safe harbor covers items up to $2,500 in value without a financial statement audit, companies must set their own threshold through a written capitalization policy.

Public companies may take a hit on earnings per share, so they might want to keep their capitalization lower than the safe harbor amounts. Another reason to keep this low would be to meet certain bank covenants or various ratios that must be reported, if applicable.

The dollar threshold for taxpayers that have an audit performed remains at $5,000, which has been unchanged since 2013.

What is the importance of cost segregation and why is it especially important for those that own a building?

Cost segregation studies, performed by a certified engineer, benefit taxpayers that own their own buildings. A cost segregation study breaks down the building into multiple structural components to understand their individual values, which is important under TPR. On new construction or new purchases, the study breaks components into asset classes. Depending on the asset class, the depreciation life could be shorter than the typical 39 year life for a commercial building. This shortens the tax life, which means tax savings and increased cash flow. When constructing a new building, look to see if cost segregation makes sense. In most cases it does, especially for buildings that cost more than $500,000.

There can be tax savings on buildings purchased years ago since there's some catching up on depreciation. Cost segregations aren't inherited when a building is purchased. They're based on the purchase price, so a new one will be needed.

How can an adviser help with tangible property regulations?

These regulations affect nearly every business in some way. Unless you own a small business — assets less than $10 million and average annual gross receipts for the last three years less than $10 million — companies are required to file Form 3115 with their tax return to be in compliance.

Tax advisers can help taxpayers stay compliant with TPR and take advantage of all available savings. The regulations are complex and can be cumbersome to follow, but they offer significant benefits so they shouldn't be overlooked. ●

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