Green Hasson Janks & Tax Services

TAX ALERT

December 4, 2015

IRS Increases the De Minimis Safe Harbor Limit to $2,500

Dear clients, colleagues and friends,

Effective Jan. 1, 2016, a taxpayer that does not have an Applicable Financial Statement ("AFS") can deduct the cost to acquire or produce a unit of property, up to $2,500 per invoice (or per item as substantiated by the invoice), rather than capitalizing the cost. The previous deduction limit was $500 per item. The IRS increased the limit due to general sentiment that the $500 threshold was too low, as many commonly expensed items like tablets and smart phones often exceed $500. For taxpayers that have an AFS, the de minimis threshold remains $5,000 per invoice or per item. (An AFS is generally a certified audited financial statement.)

Background
The final Tangible Property Regulations ("TPRs"), effective since Jan. 1, 2014, provide, among other things, a De Minimis Safe Harber ("DMSH") election that permits a taxpayer to immediately expense, rather than capitalize, certain amounts paid for tangible property that it acquires or produces if the property does not exceed certain dollar limitations. Click here to read our newsletter from Nov. 18, 2014 regarding the TPRs. To be able to use this safe harbor election, the taxpayer must have a capitalization policy in place at the beginning of the tax year.

The DMSH was intended as an administrative convenience to permit a taxpayer to deduct small dollar expenditures for the acquisition or production of new property, or the improvement of existing property, which otherwise would have been capitalized under the TPR rules. It established a minimum threshold amount, below which all qualifying amounts are considered deductible.

Increase in DMSH Amount
Prior to this increase, the DMSH dollar limits were $500 per invoice (or per item as substantiated by the invoice) for taxpayers without an AFS (i.e., audited financial statement), and $5,000 per invoice (or per item as substantiated by the invoice) for taxpayers with an AFS.

This dollar limitation is now increased to $2,500 per invoice (or per item as substantiated by the invoice) for taxpayers without an AFS. However, the dollar limitation for taxpayers with an AFS remains at $5,000.

Effective Date
This increase is effective for costs incurred during tax years beginning on or after Jan. 1, 2016. However, the IRS will not challenge the use of the increased threshold in tax years prior to 2016.

Please contact your Green Hasson Janks tax advisor or Tax Principal Daniel Rowe (drowe@greenhassonjanks.com) for additional information or to determine whether this development relates to your business.

This publication is issued periodically to keep Green Hasson Janks clients and other interested parties informed on current tax developments that may affect or otherwise be of interest to them. To update your e-mail address or remove yourself from future tax notifications, please send an e-mail to alerts@greenhassonjanks.com.