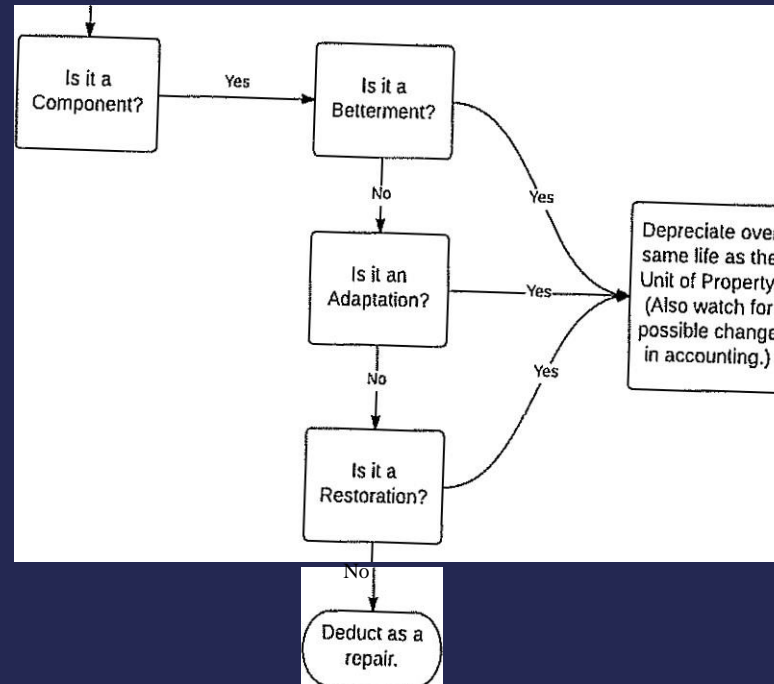
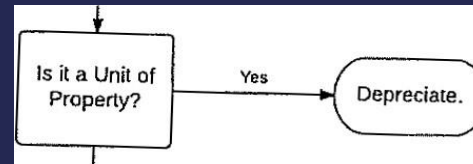
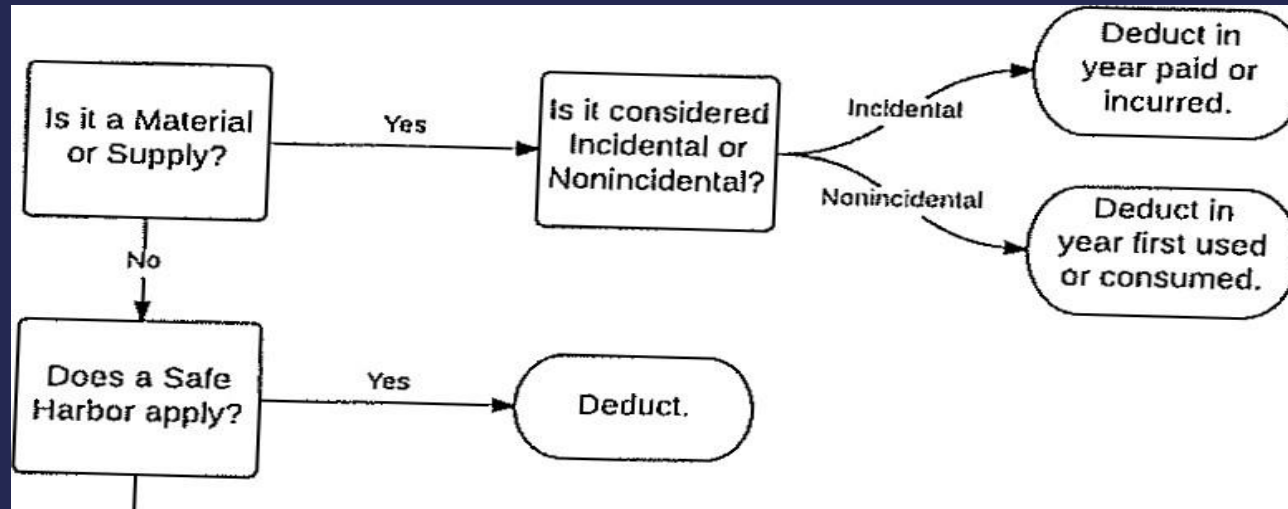


Repairs v. Capitalization



Material & Supplies

- Tangible property that is used or consumed in operations that is not inventory and meets at least one of the following:
 - 1. Is a component acquired to maintain, repair or improve a unit of property, that is not acquired as part of any single unit of tangible property.
 - 2. Consists of fuels, lubricants, water and similar items expected to be consumed in 12 months.
 - 3. Unit of property that has a useful life of 12 months or less.
 - 4. Unit of property that cost \$200 or less.
 - 5. Items specifically identified by the IRS as materials & supplies.

Safe Harbor

- De Minimis Safe Harbor – Invoices of \$ 500 or less if an annual election is made pursuant to Treas.Reg. 1.263(a)-3. (There are also exceptions to this safe harbor – such as Land or inventory).
- Routine Maintenance Cost – Amounts paid for routine maintenance to keep the property in normal operating condition. (For buildings this would include anything expected to be performed more than once during the 10 year period after the building was placed in service)
- Safe Harbor for Building for Qualified Small Taxpayers – With an annual election, taxpayers can deduct amounts paid as repairs and maintenance if expenses do not exceed the lesser of \$ 10,000 or 2% of the unadjusted basis on a building with an unadjusted basis of \$ 1 million or less.
 - Qualifying small taxpayer – annual gross receipts for 3 preceding years do not exceed \$ 10 million

Unit of Property

- Consists of all the components of property that are functionally interdependent.

Buildings – Any structure or edifice enclosing a space within its walls, and usually covered by a roof.

- A structure that is essentially an item of machinery or equipment.
- A structure that houses property used as an integral part of the following activities:
 - Manufacturing, production, or extraction
 - Transportation, communications, electrical energy, gas, water or sewage disposal

General Rule for Buildings – each building and its structural components are a single unit of property.

Structural Components

- Walls, partitions, floors and ceilings
- Permanent coverings (paneling, tiling)
- Windows and doors
- All components of central air conditioning or heating systems
- Plumbing and plumbing fixtures
- Electrical wiring and lighting fixtures
- Chimneys
- Stairs, escalators and elevators
- Sprinkler systems
- Fire escapes
- Other components relating to operation or maintenance of the building

Other Property

- Plant property – functionally interdependent machinery or equipment.
- Network assets – railroad tracks, water pipelines, power distribution line, etc.
- Leased property – when taxpayer leases property other than buildings the treatment is the same as plant property.

Improvements

Three categories:

1. Betterment

- Ameliorates a material condition or defect the either existed prior to acquisition or arose during production of the unit of property.
- Is a material addition, including enlargement, expansion, extension, or addition of the major component to the unit of property.
- Is reasonably expected to increase materially the productivity, efficiency, strength, quality or output of the unit of property.

Improvements

- 2. Adaptation
 - Capitalize as an improvement if new or different use of the unit of property is not consistent with the taxpayer's ordinary use of the unit at the time it was originally placed in service.

Improvements

3. Restoration

- Is replacement of a component of a unit of property
- Is the restoration of damage to a unit of property
- Returns the unit of property to its ordinarily efficient operating condition if the property has deteriorated to a state of disrepair and is no longer functional.
- Results in the rebuilding of the unit of property to like new condition after the end of its class life, or
- Is for the replacement of a part or a combination of parts that comprise a major component or structural part of the unit of property.

(This should not include property damaged or loss due to casualty loss)