

IRS Raises Tangible Property Expensing Threshold to \$2,500

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BY MICHAEL COHN

The Internal Revenue Service is simplifying the paperwork and recordkeeping requirements for small businesses by raising the safe harbor threshold for deducting certain capital items from \$500 to \$2,500.



John Koskinen

The change affects businesses that do not maintain an applicable financial statement such as an audited financial statement. It applies to amounts spent to acquire, produce or improve tangible property that would normally qualify as a capital item.

The new \$2,500 threshold applies to any such item that is substantiated by an invoice. As a result, small businesses will be able to immediately deduct many expenditures that would otherwise need to be spread over a period of years through annual depreciation deductions.

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"We received many thoughtful comments from taxpayers, their representatives and the professional tax community, said IRS Commissioner John Koskinen in a statement. "This important step simplifies taxes for small businesses, easing the recordkeeping and paperwork burden on small business owners and their tax preparers."

Responding to a February comment request, the IRS said it received more than 150 letters from businesses and their representatives suggesting an increase in the threshold. Commenters noted that the existing \$500 threshold was too low to effectively reduce administrative burden on small business. In addition, the cost of many commonly expensed items such as tablet computers, smart phones, and machinery and equipment parts typically exceed the \$500 threshold.

As before, businesses can still claim otherwise deductible repair and maintenance costs, even if they exceed the \$2,500 threshold.

The new \$2,500 threshold takes effect starting with tax year 2016. In addition, the IRS will provide audit protection to eligible businesses by not challenging use of the new \$2,500 threshold in tax years prior to 2016.

For taxpayers with an applicable financial statement, the de minimis or small-dollar threshold remains \$5,000.

Further details on this change can be found in **Notice 2015-82**.

Comments (2)

Eric: I think your under estimating the clairvoyance of savvy client who already had the \$2500 DMSH rule in place before 2015. :))))))

Posted by toddv124 | Wednesday, November 25 2015 at 11:29AM ET

Please note that this new DMSH (de minimis safe harbor) does not apply to tax year 2015. Taxpayers must employ their DMSH amount that they "had in place" prior to the beginning of tax year 2015. For example, if the taxpayer established a DMSH of \$1,000 before the beginning of its 2015 tax year, it cannot just increase that amount to \$2,500. While a non-AFS taxpayer does not need to have its DMSH accounting policy either written or communicated, that it just has to "be in place" before the beginning of its tax year, it cannot now modify that policy as we approach the end of tax year 2015. Taxpayers should use the issuance of RP 2015-82 to establish its accounting policy for 2016, keeping in mind the new \$2,500 DMSH amount. It should also consider a written communication of its DMSH in order to assure that it can prove to the IRS that it had a modified DMSH before the beginning of tax year 2016. Finally, keep in mind that in order to employ the DMSH for non-AFS taxpayers all of the DMSH required elements must be adhered to. Those elements include the following: (1) have an accounting policy that (2) specifies a certain dollar amount and under that will be written off, (3) in place before the beginning of the tax year, (4) must have an invoice for all items that the taxpayer wishes to apply the DMSH to, (5) actually write the items off on its non-tax books and records (if such exist), and (6) apply the DMSH to all items that meet the first 5 requirements above. Eric Wallace 412.977.6644 www.tprtoolsandtemplates.com