

## *Silver Advantage* **Tax Alert**

### **Good News! The IRS Recently Increased the Allowable Expense Deduction For Purchases of Tangible Property for “Small” Businesses Like Yours!**

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We know that your business is anything but “small,” but for purposes of this immediate expense deduction, the IRS classifies your operations as such if you do not have an applicable financial statement (generally an audited financial statement). You will be able to deduct up to \$2,500 per item for purchases of personal property, such as supplies, computers, furniture, fixtures, etc. (The old safe harbor threshold amount was \$500 per item.) Absent this change, you would have to capitalize these expenses and recover your cost over a period of years through annual depreciation deductions. This change is effective for tax years beginning on or after January 1, 2016.

In even better news, the IRS also announced that it will not challenge the use of the new \$2,500 threshold in years prior to 2016 if you meet all applicable requirements for using the safe harbor. Note that the safe harbor threshold for taxpayers with audited financial statements remains at a maximum of \$5,000 per item.

A few important items to keep in mind:

- The only IRS change was to the amount of the de minimis safe harbor threshold – from \$500 to \$2,500 per item. All other rules and requirements remain the same.
  - You must still have an accounting policy in place as of the beginning of the tax year to expense amounts paid for tangible property costing less than a specified dollar amount (i.e. \$2,500), and
  - You must follow that policy not only for tax purposes, but also for your books and records.
- Although the IRS stated that it will not challenge the use of the new \$2,500 threshold in years prior to 2016, unless the expensing policy in place in earlier years was \$2,500, you will be limited to the old \$500 threshold for 2015 and prior years.

- The \$2,500 safe harbor threshold is applied on an item-by-item basis. If you purchase multiple units of the same personal property on one invoice, be sure that each is listed separately or that the quantity of units purchased is clearly detailed on the invoice.
- The de minimis safe harbor is an annual election, providing flexibility in determining if the expensing policy makes sense for the current year. Since the policy must be followed for both tax and your “book” accounting records, non-tax considerations may drive your decision. For example, if your goal is to report higher income in order to apply for or refinance an existing loan, or to show greater income on investor statements for purposes of obtaining additional capital infusions, it may make better business sense to capitalize such amounts.

The increased safe harbor amount can reduce the administrative burden of complying with the capitalization requirement for commonly purchased items. Michael Silver & Company can provide expertise and guidance needed to determine whether the increased expense threshold makes sense for your business.