

IRS Increases De Minimis Safe Harbor Expensing Threshold from \$500 to \$2,500

The IRS has increased from \$500 to \$2,500 the maximum threshold for expensing certain capital items under the de minimis safe harbor provided in Reg. §1.263(a)-1(f). The threshold for taxpayers with an applicable financial statement (AFS) remains set at a maximum of \$5,000 per invoice (or per item as substantiated by the invoice).

The increase is in response to practitioner comments that the \$500 limitation was too low to effectively reduce the administrative burden of capitalizing the cost of many commonly purchased items such as computers, smartphones, machinery and equipment parts. The \$500 threshold also did not correspond to the financial accounting policies of many small businesses, which frequently permit the deduction of amounts in excess of \$500 as immaterial.

The increased threshold is effective for tax years beginning on or after January 1, 2016.

For a tax year beginning before January 1, 2016, the IRS will not raise the issue of whether a taxpayer without an AFS can utilize the de minimis safe harbor for an amount that does not exceed the new \$2,500 limit if the taxpayer otherwise satisfies the requirements for using the safe harbor.

Furthermore, if the taxpayer's use of a threshold that greater than the \$500 threshold but not higher than the new \$2,500 threshold is an issue under consideration under in examination, appeals, or before the Tax Court in a tax year that begins after December 31, 2011, and ends before January 1, 2016, the IRS will not pursue the issue as long as the taxpayer satisfied all other applicable requirements for using the safe harbor.

Since the safe harbor is not accounting method, it is not necessary to file an accounting method change to use the increased threshold amount. However, in accordance with the existing rules, the taxpayer must have accounting procedures in place at the beginning of the tax year that expense for nontax purposes amounts paid for property that costs less than a specified dollar amount (not to exceed the applicable threshold) and the taxpayer must actually expense those amounts on its books and records. In the case of a taxpayer without an AFS the written accounting procedures do not need to be in writing.