

Advocacy Comments on IRS Repair Regulations Guidance

On March 24, 2015, the Office of Advocacy (Advocacy) submitted a comment letter to the Internal Revenue Service (IRS) in response to the agency's Rev. Proc. 2015-20 which provide guidance related to accounting requirements commonly referred to as the "repair regulations." The repair regulations set forth accounting requirements related to the acquisition, production, or improvement of tangible property. The repair regulations direct when businesses must capitalize purchases of property and when businesses are permitted to deduct expenses in the year the taxpayer incurs the expenditure.

- The IRS issued Rev. Proc. 2015-20 with the intent to make it easier for small business owners to comply with the repair regulations by allowing small businesses to change a method of accounting under the repair regulations on a prospective basis for the first taxable year beginning on or after January 1, 2014.
- The Rev. Proc. 2015-20 also requested comment on whether the \$500 safe harbor threshold contained in the repair regulations should be raised. The repair regulations provide a safe harbor which permits a business to immediately expense the cost of property in the year that the cost was incurred as long as the property does not exceed a certain dollar amount. Currently, businesses without an applicable financial statement are limited to a \$500 deduction amount per invoice item. Businesses with applicable financial statements may deduct up to \$5,000 per invoice item.
- Advocacy held roundtables with small entities about the repair regulations on February 14, 2013 and February 12, 2015. Advocacy also spoke with other small business stakeholders. Many small business owners and representatives expressed concern to Advocacy that the \$500 safe harbor is too low. These small business stakeholders indicated that the cost of most property subject to the repair regulations exceeds \$500. Moreover, small business owners and representatives noted that small businesses generally cannot afford applicable financial statements to take advantage of the higher \$5,000 threshold.
- Advocacy commends the IRS for simplifying compliance with the repair regulations. However, based on feedback from small businesses, Advocacy strongly encourages the IRS to increase the \$500 safe harbor threshold.

For more information, as well as a complete copy of Advocacy's letter to the IRS, please visit Advocacy's website at <http://www.sba.gov/advocacy/816> or contact Assistant Chief Counsel Dillon Taylor by email at dillon.taylor@sba.gov or by telephone at 202-401-9787.