March 2015

Tax & Regulatory Committee

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Form 3115 and the New Tangible Property Regulations

Most business owners and those responsible for filing business tax returns should notice a new set of requirements for the 2014 filing season. This includes owners of rental properties, even if the activity is included on your personal tax return. In most instances, your CPA or tax preparer will have included an extra Form 3115 - Application for change in Accounting Method. In fact, even if electronically filing, an additional paper copy of the form must be mailed to a different IRS location.
You'd probably be asking: what is this all about, and why am I changing an accounting method?

The title of the form is a bit deceiving. The IRS has a different definition of accounting method. Specifically, they are referring to the way items are accounted for tax purposes, which can often be very different from your books and records for financial purposes. A new set of Regulations was finalized in late 2013 with regard to how companies can expense, capitalize or otherwise write-off fixed assets, repairs and maintenance and supply costs. In order to comply with the new rules, nearly all companies with these types of costs must "change" from the old way they were doing things to the new rules. It's not all bad. Some taxpayer friendly provisions are in there, including de minimis write-offs of amounts up to $500 (or in some cases $5,000) if you also change your internal accounting policy to match and the ability to segregate different units of property for future accelerated write-off.

The new Regulations are very complex and may cause a delay and increased costs in the preparation of business and rental property tax returns for 2014. When signing off on your return for 2014 make sure the issue was addressed, and the real question should be: why am I NOT filing Form 3115?

Subsequent to this article going to press, the IRS issued an exemption of filing form 3115 for most small businesses with under $10 million in gross income.