



The IRS Raises Expensing Threshold to \$2,500 For Small Businesses

On November 24, 2015, the Internal Revenue Service simplified the paperwork and recordkeeping requirements for small businesses by raising from \$500 to \$2,500 the safe harbor threshold for deducting certain capital items. This change impacts businesses who do not maintain an audited financial statement. The new \$2,500 threshold applies to amounts paid to acquire, product or improve tangible property that would normally be required to be capitalized and depreciated. The \$5,000 de minimis threshold for companies with an audited financial statement has not been changed.

In order to utilize the \$2,500 expensing policy, companies must have a written policy effective at the beginning of the tax year that is applicable to both book and tax records. Furthermore, the taxpayer must make a de minimis safe harbor election on their timely filed tax return.

The IRS raised the threshold from \$500 to \$2,500 in response to numerous inquiries from small businesses and representatives indicating the \$500 threshold was too low. The move is intended to reduce the administrative burden placed on small businesses.

EFFECTIVE DATES

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.

If you have any questions regarding how your company can effectively utilize the new safe harbor policy, please contact:

Kaz Unalan, CPA
Tax Director
kunalan@gbq.com
614.947.5309

Tim Schlotterer, CPA
Tax Director
tschlotterer@gbq.com
614.947.5296

Jeff Waldeck, CPA
Tax Manager
jwaldeck@gbq.com
614.947.5312