

- (a)** De Minimis policy must be in place as of 1/1/14. Policy is consistent for book and tax purposes.  
De Minimis is allowed to be \$500 for most companies  
De Minimis is allowed to be \$5,000 for companies with audited financials OR ANY financial statement used for governmental purposes.
- (b)** Materials & Supplies are defined as any of the following:  
A component acquired to maintain, repair, or improve a Unit of Property (UOP) that is not acquired as part of any single UOP  
(ex. spare and replacement parts)  
It is not inventory or a component of inventory (item to be resold)  
A UOP that has an economic life of 12 months or less after use begins
- (c)** Safe Harbor to Deduct Routine Maintenance to keep a UOP in working condition - this is not an election and a 3115 is required  
Non building property - must reasonably expect to perform activity more than once during ADS Class life  
Building property - must reasonably expect to perform activity more than once during 10-year period  
NOTE: An election is available to capitalize repair and maintenance costs, must be consistent with books
- (d)** Small Taxpayer Provision for building improvements. An annual election is available - it is on a per building basis  
Cost basis is \$1M or less (or total rent payments for lease term)  
Taxpayer has average annual gross receipts of \$10M or less (previous 3 years)  
Total amounts for repairs, maintenance & improvement expenses for the tax year must not exceed \$10,000 or 2% of original building cost (whichever is less). Must use all amounts incurred for the year even if they qualify to be deducted under the routine maintenance or De Minimis safe harbor elections. If over amount, entire amount must be capitalized.
- (e)** Acquisition - Amounts paid or incurred to acquire or produce tangible property. Transaction (facilitative) costs must be capitalized as well.
- (f)** Betterment – **1.** Makes a material improvement in the condition or resolves a defect that either existed before the taxpayer acquired the property or arose during its production (regardless of awareness of the need for a betterment).  
**2.** Results in a material addition (including a physical enlargement, expansion, extension, or addition of a major component) to the UOP, or results in a material increase in the capacity, or  
**3.** Is reasonably expected to materially increase the productivity, efficiency, strength, quality or output of the UOP.
- (g)** Restoration - Must be capitalized if it falls in one of the five categories:  
**1.** Taxpayer replaces a component of a unit of property and has (1) properly deducted a loss for the component (non-casualty) or (2) properly taken into account the adjusted basis of the component in realizing gain or loss resulting from the sale or exchange of the component. However, this rule doesn't apply if the UOP is fully depreciated and the loss is attributable only to remaining salvage value for federal tax purposes.  
**2.** Taxpayer restores damage to a UOP for which the taxpayer has properly taken a basis adjustment as a result of a casualty loss or event.  
**3.** Taxpayer returns the UOP to its ordinarily efficient operating condition if the property has deteriorated to a state of disrepair and is no longer functional for its intended use.  
**4.** Taxpayer rebuilds the UOP to a like-new condition after the end of its class life. Generally, a comprehensive maintenance program, although substantial, doesn't return a UOP to a like-new condition.  
**5.** Taxpayer replaces a part or a combination of parts that comprise a major component or a substantial structure of a UOP.
- (h)** Alteration - In general, a "new or different use" means a situation where the adaptation isn't consistent with the taxpayer's intended ordinary use of the property when he placed it in service.