October 15: Last Chance to Take Advantage of Retroactive Business Expensing

Article Highlights

- Adopting Capitalization and Repair Regulations Retroactively
- October 15 Deadline
- Retroactive Expensing
- Partial Dispositions

If you are a small business owner, October 15, 2015, is your last chance to retroactively adopt the new tangible property regulations that took effect in 2014.

Why is adopting these new regulations important? They give you the opportunity to expense items that you had capitalized (depreciated) in years for which the three-year statute of limitations has not yet expired. As an example, say you are a landlord, and you replaced the roof on your rental at a cost $6,000 in 2012. Prior to the new regulations, that expense would have been treated as a capital expense, and you would have had to depreciate it (deduct it slowly), over 27½ or 39 years. However, under the new regulations, the expense of replacing the roofing membrane is fully deductible in the year the cost was incurred.

Another benefit of adopting the regulations retroactively is the treatment of what is termed a partial disposition. This refers to the replacement of a portion of an existing capital asset, such as the roof in the prior example. In the past, the remaining undepreciated value of the replaced roof would have continued to be depreciated along with the rest of the building for the remainder of the building's life. Under the new regulations, the undepreciated value of the existing roof can be expensed in the replacement year under the partial disposition rules.

Although we used a building and roof to illustrate these new provisions, these rules don't just apply to buildings; they apply to all tangible business assets.

However, adopting the regulations retroactively requires affirmative action on your part by the extended due date of your 2014 return, which is October 15, 2015. Failing to adopt the regulations by the October date is not the end of the world; it just means that you default to adopting the regulation prospectively and cannot take advantage of any retroactive adjustments.

To adopt the regulation retroactively, you must file an appropriately completed IRS Form 3115 with your 2014 return.

If you believe you can benefit from adopting the regulations retroactively, please give this office a call as soon as possible so that there will still be time to adopt the regulations on your extended 2014 tax return (or on an amended return if you have already filed your 2014 return).