Tax Alert

Tangible Property Regulations for Small Taxpayers

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Recently released Revenue Procedure 2015-20 contains a simplified procedure to implement the tangible property regulations for small taxpayers.

Small taxpayers who choose to apply the tangible property regulations prospectively to amounts paid or incurred, and dispositions, in taxable years beginning on or after January 1, 2014 have the option of making certain tangible property changes in their method of accounting on the federal tax return without including Form 3115. Audit protection is not given to these taxpayers for taxable years beginning prior to January 1, 2014. Additionally, no "look-back" to obtain an additional tax deduction in 2014 is available.

A "small taxpayer" is one who has (i) total assets of less than $10 million as of the first day of the taxable year for which a change in method of accounting is effective; or (ii) average annual gross receipts of $10 million or less for the prior three taxable years for each separate and distinct trade or business.

Taxpayers that meet the scope requirements, who want to use this revenue procedure and have previously filed a federal tax return for 2014 with a Form 3115, may file an amended federal return before the return's due date, including extensions, to withdraw the Form 3115.

Although qualifying for the relief provided by Rev. Proc. 2015-20 obviates the requirement to file a Form 3115, taxpayers should bear in mind that, as noted above, electing to comply with Rev. Proc. 2015-20 prevents them from claiming a negative Section 481(a) adjustment for (i) items capitalized in past years that could have been deducted under the tangible property regulations, and (ii) dispositions in taxable years beginning before January 1, 2014. In addition, in both of these instances, taxpayers do not receive audit protection for taxable years beginning prior to January 1, 2014. Taxpayers also cannot make use of the late partial disposition election available in 2014 to deduct the basis of duplicative assets still on their books that are being depreciated. Consequently, qualifying taxpayers should carefully consider the pros and cons of choosing to comply with the provisions of Rev. Proc. 2015-20.

Please contact your WeiserMazars tax professional for more information.

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