

Questions asked by our members – Answered by Surgent McCoy CPE LLC

Q1. Is the approach correct/reasonable regarding the new regs for materials/supplies?

The new material/supply regs notes the following:

- Incidental materials/supplies are to be deducted when purchased/accrued
- Non-incidental materials/supplies are to be deducted when used/consumed

Since these regs are new, they need to be adopted by ALL business taxpayers that use supplies/materials in ordinary course of business, as they could not have correctly followed regs that did not exist in this form. Therefore, I plan to:

- Review 2013 materials/supplies deductions and 12/31/14 ending materials/supplies inventory balance (non-merchandise inventory) to identify any potential 481(a) issues (don't expect to find any)
- Include Form 3115 with the tax return and copy to Ogden
 - DCN 186 to adopt non-incidental material/supply regs
 - DCN 187 to adopt incidental material/supply regs

Agree in all respects except you don't need a 481(a) adjustment as this method change uses the cut-off method.

Q2. Is this approach correct/reasonable regarding the new regs for repairs?

The new repair regs address the "unit of property" concept and focus on the need to capitalize on betterments, adaptations, and restorations. Again these regs are new and could not have been followed historically since they did not exist. Therefore, I plan to:

- Review depreciation schedule through 12/31/13 to determine if there were assets that should have been deducted as repairs
- Review repair expenses prior to 2013 and determine if any deductions should have been capitalized
- Determine if there are any 481(a) adjustments
- Include Form 3115 for business tax returns that have depreciable assets, regardless of the existence of a 481(a) adjustment.

Agree

Q3. "Late partial disposition" issues will be rare with my clients; I'll address on a case by case basis. Therefore my understanding is that it is not appropriate to include the DCN 196 with every tax return—correct?

Agree

Q4. Although there are other 3115 issues with respect to the repair regs, those I have mentioned appear to be of primary concern—correct?

Agree

Q5. All 4 of the above-referenced accounting method changes (DCN 186, 187, 184, 196) can be included on a single Form 3115—Correct?

Agree, it is required.

Q6. A client has also been planning to change accounting methods from cash to accrual in 2014; can this method be included with the other accounting changes on a single form 3115?

We don't know for sure; you should research this. This change is not repair reg. related.

Q7. Can the client in Q6 postpone the cash/accrual method change until 2015, given that the 2014 tax return will include a Form 3115 for the DCN 186 and 187, or does this violate the 1 in 5 year rule for accounting method changes?

We think the 5 year rule applies; but you should research this as it is not a repair related issue.