

# AGRICULTURAL TAX PLANNING

## IRS Gives Small Business a Christmas Present

By Thomas J. Bryant, CPA and Ryan Beasley, CPA

On November 24, 2015 the Internal Revenue Service announced that the safe harbor threshold for small businesses making a De minimis Safe Harbor Election (DSHE) is **increased from \$500 to \$2,500 effective for tax years beginning on or after January 1, 2016**. In addition, **and as equally significant**, the IRS announced that for years beginning before January 1, 2016 it **will not** raise upon examination the issue of whether a taxpayer without an AFS can utilize the de minimis safe harbor for an amount not to exceed \$2,500 per-invoice or per-item as substantiated by an invoice, if the taxpayer otherwise satisfies the requirements of the DSHE. **Ranchers and farmers making the de minimis safe harbor election for 2015 can now review all items capitalized in the year to determine if any items capitalized can now be expensed in 2015.**

The IRS also stated that for taxpayers currently under examination, in appeals, or before the Tax Court in a taxable year that begins after December 31, 2011 and ends before January 1, 2016, where the use of a safe harbor limit above \$500 but not in excess of \$2,500 is an issue and the taxpayer otherwise satisfies the DSHE requirements, the IRS “will not further pursue the issue.”

The IRS received more than 150 letters requesting that the \$500 limit be raised. The de minimis provision in the new Tangible Property Regulations was intended to be a simplifying provision easing the taxpayer’s compliance with the regulations and to reduce administrative burden. Those commenting on the de minimis rule stated the \$500 per-invoice or per-item threshold was less than the cost of many commonly expensed items such as tablet-style personal computers, smart phones, and machinery and equipment parts. They also stated that the \$500 threshold did not correspond to the financial accounting policies of many small businesses, which frequently permit the deduction of amounts in excess of \$500 as immaterial. Additional arguments were also presented. Having considered the comments of tax professionals and businesses, the IRS raised the de minimis safe harbor limit from \$500 to \$2,500 for those businesses without an AFS. A significant benefit for small business.

We will review the basic requirements for making the DSHE. This article addresses only businesses that do not have applicable financial statements (AFS). Those businesses with AFS have a limit of \$5,000 which was not changed.

### **The De minimis Safe Harbor Election**

The DSHE allows taxpayers to currently expense and not capitalize, or treat as a material or supply, certain amounts paid for tangible property that it acquires or produces during the taxable year provided the taxpayer meets certain requirements and the property does not exceed certain dollar limits.

- The taxpayer must have a consistent accounting procedure or policy existing at the beginning of the taxable year to expense certain amounts on his books and records costing less than a specified dollar amount (the limit) or amounts paid for property with an economic useful life of 12 months or less and follow that policy.
- For small businesses without AFS the dollar limit was \$500. As explained above, that limit in effect, is now **\$2,500**.

- The determination is made on a per-invoice or per-item basis. Any additional costs associated with the property such as shipping, installation etc. included on the invoice must be included in determining if the item(s) fall within the limit.
- The election must be made **annually** by attaching a statement to a timely filed federal tax return, including extensions.
- Generally, the election must apply to all amounts paid during the year meeting the requirements, with few exceptions.
- All tangible property is eligible for the de minimis rule except land and inventory items.

### **Examples**

- Bill buys 5 computers to be used in his cattle business. The computers cost \$1,300 each including shipping and set-up and the cost of each is substantiated on the invoice. Bill can currently deduct the total of \$6,500.
- Alice buys 3 oversized garage doors for \$2,500 each including delivery and installation. The \$2,500 cost per door is clearly listed on the invoice. Alice can currently deduct the \$7,500 total cost.
- Bill buys 12 tractor tires costing \$1,200 each. The cost per tire is clearly listed on the invoice. Bill can currently deduct the total cost of \$14,400.

### **Summary**

The beauty of this decision is the fact that upon examination the IRS will not raise the issue of taxpayers using a limit above \$500 for years before 2016, a big boost for small businesses. This appears to open the door to use the \$2,500 limit for 2015 and earlier years even though it was not the limit in place in those earlier years. The ability to currently deduct \$2,500 per-invoice or per-item can save ranchers and farmers many thousands of dollars. Taxpayers may also be able to file amended returns for earlier years and recover additional tax paid. Use of the \$2,500 limit will also free up Section 179 deductions. The Section 179 limit for 2015 is \$25,000. However, there is a good chance that Congress will increase that limit for 2015. This article is based on the best available information at the time it was written.

For information on this topic or other tax planning for ranching and farming, please contact me at (863) 640-2008 or [tom@beasleybryantcpa.com](mailto:tom@beasleybryantcpa.com) and/or Ryan Beasley at (863) 646-1373 or [ryan@beasleybryantcpa.com](mailto:ryan@beasleybryantcpa.com). Please visit our website at [www.beasleybryantcpa.com](http://www.beasleybryantcpa.com) for information on other relevant topics.

We at Beasley, Bryant & Company, CPA's, P.A. are experienced in agricultural business problems, tax issues or concerns, and are here to help you.

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