Repairs and Maintenance Studies

An analysis of your capitalized remodeling costs might <u>uncover new deduction opportunities</u>

<u>Recent tax courts cases have paved the way for R&M studies</u>, which are generating significant tax benefits for many business owners

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Potential Savings Opportunities

(assuming 35% tax rate)

On a $10,000 Roof Repair

First Year Deduction

- Savings with R&M Study = $9,861

First Year Tax Impact

- Savings with R&M Study = $3,452

On $50,000 Placed in Service in 2009

2009 Deductions

- Savings with R&M Study = $36,485

Cash Tax Savings

- With Repair Classification = $12,770

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Engineered Repairs & Maintenance Studies

Through a thorough analysis of your expenses for repairs and maintenance, we can help you reduce your tax liability and improve cash flow by properly reclassifying these expenditures.

First, we will identify which asset costs are not properly classified, then reclassify them as deductible repairs as defined by IRS Code Sections 162 and 263. Deductible repairs may include "incidental repairs" that help to maintain efficient operating condition but do not necessarily prolong its life, add material value or adapt the property for new or different use.

Expenses incurred or paid for incidental repairs and maintenance are not considered as capital expenditures and may be reclassified to accelerate deductions in the current year.

How It Works

If you perform regular maintenance and repairs to your assets, you may be able to recapture thousands of dollars by reclassifying improperly classified capital expenses as deductible costs to accelerate depreciation. Through IRC Section 481(a), routine and incidental repairs and maintenance costs may be adjusted to reduce taxable income in the current tax year and increase any net operating loss (NOL) for a potential carry-back up to five years.

Capital Expenditures vs. Deductible Repairs

Capital expenditures include those for building improvements or other long-term betterments, new equipment, architects' fees - even the cost of defending or perfecting your title to the property. Generally, a capital expenditure either adds an asset or increases the value of an existing one. Whether it's a deductible repair or a capital improvement often depends on the context.

If an expenditure is part of a general plan of rehabilitation, modernization or improvement to equipment or other business property, it usually must be capitalized, even though by itself it would be currently deductible.

According to IRS Code, you must capitalize expenses that:

- Substantially prolong useful life (including replacement of deteriorating assets),
- Materially increase value, or
- Adapt the property to a new or difference use

On the other hand, you are allowed to deduct fees and expenses related to routine repairs and maintenance that help maintain the property in efficient operating condition. You can deduct the cost of parts and labor in order to repair or maintain your business assets, provided that this expense does not increase the value of the asset or prolong the useful life of the asset.

A proposed regulation, likely to be released this year, may also allow certain cosmetic and remodeling expenses, such as those that would improve branding, retail or merchandising, or provide a property "facelift", as deductible under the repairs and maintenance rules.

Deductible repair and maintenance expenses may include:

- Roof repairs
- Replacing lighting
- Resurfacing parking lots
- Replacing doors and windows
- Resurfacing interior or external floors
- Painting (interior or exterior)
- Rekeying locks

Who can Benefit from a Repairs and Maintenance Analysis?

A variety of industries may benefit from these rules, including those in the banking, retail, hospitality, manufacturing, pharmaceutical, warehouse, distribution and utility industries, to name a few. The rules may apply to most capital-intensive companies that invest significant dollars on routine and incidental repairs and maintenance expenses.

URISH POPECK & CO., LLC

Accountants and Consultants