Phyllis Weller's Tax & Accounting Service
Phyllis Weller, E.A.
P.O. Box 159
Hill City, Kansas 67642
(785) 421-2688 Fax (785) 421-5567

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On September 19, 2013 the Internal Revenue Service issue new final Regulations which go in to effect for tax years beginning on or after January 1, 2014. These incredibly complex Regulations require you to keep much better records for repairs, maintenance and supplies, and require you to specifically analyze each of these items costing over $500, assuming you do not receive audited financial statements. We are writing you this letter to help you understand that if you do not analyze these individual items and classify them appropriately we will be required to spend substantial additional professional time, with substantial additional fees to analyze all items. Here is a summary of the new rules and what you will need to do to comply with the new IRS requirements.

Materials and Supplies
You are now allowed to write off any individual supply costing $200 or less, lasting less than 12 months, or fuel, lubricants or similar items that will be used in 12 months or less. Please add a new expense account to your accounting system titled "Materials and Supplies" and enter any expense meeting the above category in this account. Anything costing more than that will need to be individually analyzed under the rules below to determine if they are qualified expenses or treated as equipment that must be depreciated over several years. Special rules apply for extra parts (rotable parts).

Equipment, Repairs and Maintenance
You are now allowed to write off any individual equipment item or equipment repair or maintenance item costing $500 or less. For buildings a different rule applies as discussed below. We also suggest entering individual items costing this amount or less into your repairs account, but refraining from adding any items above that cost to this account. Items costing more than this will generally be required to be individually analyzed under the rules below to determine if they are qualified expenses or treated as equipment that must be depreciated over several years.

Building Repairs & Maintenance
If your building has a cost basis of $1,000,000 or less a special rule applies. Any repairs that are expected to be made more than once in ten years, and costing less than $10,000 individually may be written off as repairs. Items that are not expected to be replaced more once in ten years must also be examined individually under the rules below to determine if they may be treated as expenses or depreciable assets.

Expenses Above the Limits
The IRS now requires you to examine each individual item outside of the above limits to determine if it has been a betterment, restoration or adaptation of the main unit of property. A unit of property is now defined as the inter-related parts composing one larger unit. For example a unit of property is a car composed of inter-related parts, so any repairs to the car must be examined as to whether they are a betterment, restoration or adaptation of the car as a whole rather than its

individual components. For buildings the test must first be applied to the building as a whole and then applied to its components of HVAC, plumbing, electrical, structure, elevators, security, fire protection or gas distribution. Anything considered a betterment cost, restoration or adaptation under these rules must be depreciated and listed as equipment, otherwise it may be expensed as repairs.

A betterment is defined as fixing a condition that existed at purchase, or an increase in the physical size or capacity of an asset. Betterments must be capitalized and depreciated so they should be added to your equipment account.

A restoration is generally defined as a cost to return a non-functional asset to use, the cost of rebuilding an asset after the end of its depreciable life or replacing a major component of the unit of property. For example a transmission replacement would be the replacement of a major component of a unit of property of a truck and must be capitalized and depreciated.

Finally an adaptation cost is one incurred to change the function of a piece of equipment or property to a different use and must also be capitalized and depreciated.

Many additional nuances and applications apply to these new small business unfriendly Regulations and we would be happy to discuss them in an appointment with you to help you keep the costs of IRS compliance down.

Thank You

Phyllis Weller

All accounts 30 days past due are subject to a service charge of 1.5% per month. (18% APR)