The final Repair Regulations contain guidance regarding how to treat expenditures related to tangible property. The following flowcharts will assist in analyzing invoices and determining the proper treatment of expenditures.

**Materials and Supplies Flowchart**

Does the expenditure result in an asset that will be used longer than 12 months in the business?

- Yes
  - Is the expenditure more than $200, including sales tax, freight, installation, etc?
    - Yes
      - Capitalized on the financial statements?
        - Yes
          - Expense item.
        - No
          - Expense item.
    - No
      - Will the business have a capitalization policy in place by the beginning of the tax year?
        - Yes
          - Will the company use the de minimis exception?
            - Yes
              - See Improvement Flowchart.
            - No
              - New UOP?
                - Existing UOP?
                  - Capitalize.
                  - See Improvement Flowchart.

- No
  - Is the expenditure for a new asset/Unit Of Property (UOP), or related to an existing asset/UOP?
    - Yes
      - Existing UOP?
    - No
      - New UOP?

**Additional Considerations:**
1. When applying the flowchart above, it is important to look at the per-unit cost, as opposed to the total invoice cost. It is very common for multiple UOP to be included on one invoice. It is also very common for multiple invoices to make up a single UOP.
2. It is very important to implement a written book capitalization policy prior to the beginning of the tax year, in order to apply the de minimis rules for purchases under a specified threshold.
Is the existing UOP to which the expenditure relates a building or piece of equipment?

**Building**

Apply the following BAR tests to the individual subsystems of the building:
(1) Building Structures; (2) HVAC; (3) Plumbing System; (4) Electrical System; (5) All Escalators; (6) All Elevators; (7) Fire Protection and Alarm System; (8) Security System; and (9) Gas Distribution System.

**All other tangible property**

**Manufacturing Equipment**

Applying the following tests to the individual piece of equipment or component that performs a discrete and major function:

**Check for MACRS conformity.**

**Betterment Test**

Does the expenditure correct a material defect that existed prior to placing the UOP in service?

- Yes
  - Does the expenditure create a material addition to the UOP?
    - Yes
      - Capitalize.
    - No
      - No
        - Does the expenditure create a material increase in: (1) Strength; (2) Capacity; (3) Productivity; (4) Efficiency; (5) Quality; or (6) Output?
          - Yes
            - Adaptation Test
          - No
            - No
              - No
                - No
                  - No
                    - Deduct as a repair.
                - Yes
                  - Have you recognized a gain or loss on UOP?
                    - Yes
                      - Deduct as a repair.
                    - No
                      - Yes
                        - Adaptation Test

**Restoration Test**

Does the expenditure rebuild the UOP to like-new condition after the end of its class life (not routine maintenance)?

- No
  - Yes
    - Capitalize.

Does the expenditure replace a part, or combination of parts that comprise a major component or a substantial structural part of the UOP?

i. Major Component Definition:
   A part(s) that perform a discrete and critical function in the operation of a UOP (40% or more replaced).

ii. Substantial Structural Part Definition:
   A part(s) that comprise 30% of the total physical structure of the UOP.

Does the expenditure return the UOP from a state of nonfunctional disrepair?

- Yes
  - Have you recognized a gain or loss on UOP?
    - Yes
      - Deduct as a repair.
    - No
      - Yes
        - Adaptation Test

Please contact your advisor with any questions you may have with respect to the new Repair Regulations, or for assistance in implementing a written capitalization policy.