CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

CASE STUDY - Fixed Asset Review

Client: Midsize manufacturer
Issue: Tangible Property Regulations Compliance
Service: Fixed Asset Review

The situation:

Our client is a regional manufacturer of corrugated paper products with several production facilities located throughout the Midwest. The company produces over 125M in annual revenue across several entities, and has a significant number of fixed assets consisting primarily of machinery, equipment, and real property. As of late 2013, this client's capitalization policy was rather informal, had not been memorialized in writing, and varied across its related entities. The policy did not allow for the expensing of capital purchases greater than $1,000. In addition, the company was capitalizing many repair and maintenance activities.

When the final version of the tangible property regulations was released in September, 2013, it clarified that these expenses were actually deductible. Not only was the client unnecessarily delaying a tax benefit, but in capitalizing these activities they were causing overly burdensome internal bookkeeping.

But given the complexity of the regulations, the client was unsure which aspects applied to their situation, which required them to take proactive steps to become compliant and which provided opportunities to achieve a tax benefit. While they surmised that changes would have to be made, they were unclear how to implement them. Additionally, they suspected that there was an opportunity to maximize the tax benefits under the new regulations, but didn't feel confident they knew how. And they felt the clock was ticking, since January 1, 2014 was the cutoff date for mandatory compliance with the regulations.

Our solution:

Clark Schaefer Hackett advised the company to undertake a Fixed Asset Review that would offer clarity to their repair regulation compliance approach. The review determined which capitalized assets could now be expensed, and calculated the tax impact of doing so. These included improvements that were now considered repairs and maintenance, items that were now considered materials and supplies, and disposals that had not previously been deducted.

We custom-tailored the company's implementation timeline for the various parts of the new regulations, including which aspects of the regulations could be applied to previous years. We also designed a unique capitalization policy for each entity, developed in light of the regulations' various safe harbors.

To guide our client through the complexity of this work, we created a comprehensive report which summarized the regulations, explained our findings, and detailed the impact of the Fixed Asset Review.

The results:

CSH's Fixed Asset Review uncovered over $500,000 in additional deductions for the client, all of which were available during the 2013 tax year. Furthermore, we identified at least $100,000 of additional deductions that would be available during each successive year.

Our client's newly drafted capitalization policies allowed for expensing of tangible property purchases up to $5,000 per item, an increase from the prior threshold of $1,000. The Fixed Asset Review also set forth a plan for future compliance, and included several tools such as an invoicing policy, sample letters to vendors, and other information which would facilitate a smooth transition. As part of our work, CSH prepared the necessary Forms 3115 to effectuate the changes and allow the client to realize the additional deductions in the current tax year.

To our great pleasure, we continue to advise this client on transaction-specific issues, allowing them to maximize their deductions in current and future tax years.