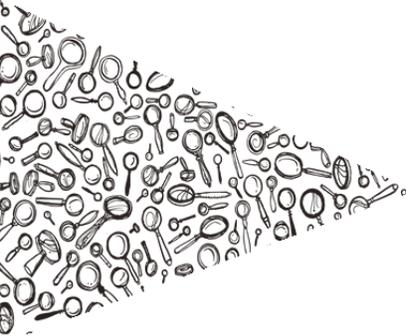


Tax Services



The Tangible Property Regulations Why comply and how?

After almost two years of analysis and commentary, the Internal Revenue Service (IRS) released the long-awaited final and repropounded tangible property regulations in September 2013. The final rules provide welcome simplification in certain areas, as well as opportunities for taxpayers to obtain tax benefits, if interested. Certain rules apply to amounts paid or incurred in tax years beginning in 2014, while others also apply to transactions occurring before January 1, 2014. The most common question we continue to be asked is: Do these rules really affect me, and if so, what is the most efficient way to comply?

Who is affected? The Regulations affect all taxpayers that own or lease tangible property. Unlike most regulations, these rules generally affect all industries and all types of taxpayers, including both domestic and foreign corporations, as well as pass-through entities.

Why should you comply? As with most law changes, there are benefits associated with compliance and risks associated with noncompliance.

The benefits of implementation and compliance include the following:

- ▶ An opportunity to deduct certain costs, including repair and/or disposition costs
- ▶ Reasonable efforts to comply result in the following:
 - ▶ An efficient tax provision and return review process considering annual elections and method changes
 - ▶ No tax return disclosures
 - ▶ Process changes to take advantage of simplified aspects of the regulations
- ▶ Reduced effort required during future IRS exam process

The risks of noncompliance include the following:

- ▶ Financial statement auditor may be unable to sign off on provision and/or internal control effectiveness, if material
- ▶ Possible FIN 48/ASC 740-10 liability assessment and related UTP disclosure
- ▶ Tax return preparer may be unable to sign 2014 tax return without disclosure on Form 8275-R for noncompliance with Regulations



Building a better
working world

When should you assess? The Regulations are effective for tax years beginning on or after January 1, 2014; however, taxpayers have various options to early adopt for their 2012 and/or 2013 tax years. Additionally, the financial statement impact of the regulations will need to be assessed, with the possibility that taxpayers have an income tax accounting event as early as the third quarter ending 2013 for the method changes that require a look-back analysis. As such, determining a taxpayer's current policies, procedures and tax treatment is imperative to timely assess any adjustments required to be recorded, as well as process changes to ease implementation.

How do you comply? Depending on the size and complexity of the organization and the magnitude of tangible property, the exercise of "complying" with these regulations will range from basic analysis, elections and filing method changes (if applicable) to comprehensive assistance with analysis of tangible property data, addressing organizational or industry-related issues, leveraging statistical sampling, and preparing appropriate elections and method changes.

Phase I: Initial Assessment*

- ▶ Evaluation of existing capitalization and expense practices in comparison to the final regulations
- ▶ Review book and tax policies and practices to assist in determining gaps between current policies and final regulations
- ▶ Review trial balance and identify relevant accounts for consideration in complying with final regulations
- ▶ Discuss book repair and maintenance activities and related accounting practices (conservative, aggressive, etc.)
- ▶ Provide recommendations for election and method changes for final regulations

Phase II: Implementation

- ▶ Gather and analyze relevant supporting documentation for areas identified during phase I
- ▶ Update analysis of prior repair deductions, if necessary
- ▶ Develop supporting legal analysis for new methods, including book repair and maintenance costs
- ▶ Prepare or review required tax filings and/or elections
- ▶ Co-develop next steps and process changes for implementation of new methods
- ▶ Assist with updating the fixed asset system, where necessary
- ▶ Discuss findings with client, including tax benefits, potential tax positions and related risks

**Critical to meet January 1, 2014 deadline*

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2013 Ernst & Young LLP.
All Rights Reserved.

SCORE No. YY3093
1309-1137622_W

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com