

De Minimis Safe Harbor: How Businesses Can Expense Smaller Asset Purchases

When your business purchases equipment or other tangible property, you may assume that every asset has to be capitalized and depreciated over several years. That's not always the case.

The De Minimis Safe Harbor election allows businesses to immediately expense certain smaller purchases rather than capitalizing and depreciating them over time. For businesses without an applicable financial statement, the Safe Harbor generally applies to purchases of up to \$2,500 per invoice or item. For businesses with an applicable financial statement, they may qualify for a higher threshold up to \$5,000, think audited financial statements.

So, how do I take advantage of this election? First, you need an accounting policy that establishes how your business treats these purchases. Your treatment on your books and records should align with how you handle them for tax purposes. You'll also need to make an election each year by attaching the required statement to your timely filed income tax return.

One thing to keep in mind is that you don't necessarily have to use the full allowable threshold. A business can adopt a lower amount based on its accounting approach, financial goals, whatever threshold you choose, however, must be applied consistently throughout the year. For example, instead of capitalizing and tracking a qualifying piece of equipment over its depreciable life, the Safe Harbor may allow you to deduct entire cost in the year it's purchased. That may mean less record keeping and a simpler approach to managing smaller asset purchases.

The De Minimis Safe Harbor election may seem like a small tax revision, but understanding how and when to use it can make managing your fixed assets a little more straightforward. If you want to learn more, talk with your tax advisor about how this election fits into your business accounting and tax strategy. Thank you.

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