



WHEN TO CAPITALIZE AND WHEN TO EXPENSE

Client spends \$300,000 to remodel two building elevators. Should they capitalize or expense?

Under §1.263(a)-3(k)(1)(vi), a taxpayer must capitalize as an improvement an amount paid to restore a unit of property:

§1.263(a)-3(k)(7) - Examples 13 & 30. Ex. 30 involves the replacement of one of four total elevators in a building. The example concludes that the replacement of the single elevator (25% of the total elevator system) is not the replacement of a major of the elevator because the single elevator does not perform a discrete and critical function (there are three other elevators). So if there are enough elevators, then this might not be an issue.

§1.263(a)-3(i) – there is a routine maintenance safe harbor if the client can show that they had a reasonable expectation that they would perform some of these repairs more than once during the 10-year period beginning at the time the elevator system was placed into service.

**What is your cost segregation question?
Ask us today: 877.410.5040**



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Launched in 2001, Scarpello Consulting provides cost segregation services that allow clients to maximize their depreciation deductions while minimizing audit risk. The firm works with Fortune 500 companies and some of the largest national CPA firms through their multiple offices in Omaha, NE, Overland Park, KS, Sarasota, FL, and Denver, CO.