North Carolina Department of Revenue

Roy Cooper
Governor

Ronald G. Penny
Secretary

December 14, 2017

MEMORANDUM

TO: County Assessors

FROM: Tony Simpson
Director, Local Government Division

SUBJECT: Expensed Items on the 2018 Business Personal Property Listing Form

Under the IRS tangible property regulations, taxpayers can elect to deduct expenses for the purchase of tangible property that were previously capitalized. For taxpayers without applicable financial statements (AFSs), that election is limited to $2,500 per invoice or item. For taxpayers with AFSs, the limit is $5,000. As a result of the higher threshold, small businesses will be able to immediately deduct many smaller dollar expenditures that previously would have been capitalized and spread over a period of years through annual depreciation deductions. The year these assets are purchased, the business will expense the assets and they will show up in an expense account. The assets will not be placed on the taxpayer's depreciation schedule, which will result in there not being a record of the assets' costs for the second year.

It has come to our attention that counties, taxpayers, and taxpayers' accountants are having difficulty implementing our recommendation concerning the listing and appraisal of these expensed assets. The common practice for taxpayers is to report expensed items the first year they are purchased in Group (6) on the state listing form, which is reserved for short lived assets. Extracting the costs of expensed items from their respective accounts and listing them in the correct category each year creates a hardship for taxpayers and requires them to maintain two sets of financial records. In addition, this can lead to challenging and time consuming audits in the future, as the costs are not reported on the depreciation schedules.

For tax year 2018, we are recommending that county appraisers accept the costs reported in the "Expensed Items" category for new assets purchased in 2017. In situations where the taxpayer is **unable to provide** the county appraiser with a detailed description and the historical, installed cost of the asset, the appraiser is directed to use an **A-8 schedule** to depreciate the asset. The A-8 schedule is the average length of years an asset in this category is expected to remain economically viable. In cases where the taxpayer is **voluntarily able to provide** the county appraiser with a detailed description and the historical, installed cost of the asset, the county appraiser is directed to schedule the assets for depreciation on the **specific schedule** created for that particular asset and business type. This option would require the taxpayer to maintain the costs of these assets in their accounting records each year going forward for reporting and disposal purposes.

The cost of assets reported in the "Expensed Items" category in 2017 or prior should continue to be depreciated over a one to three-year period, if this schedule was previously used. For the 2018 listing period, no taxpayer should be required to provide a detailed listing of the assets reported in the "Expensed Items" category. When information is unavailable, use an A-8 schedule. In addition, after the assets have been depreciated over an eight-year life span, the county appraiser should remove these costs from the listing form in the ninth year as a disposal.

Please share this information with the appropriate business personal property appraisers in your tax office, as well as all other interested parties. Please contact our office if you have any questions concerning this memorandum.