**Sample Accounting Policy for Taxpayers with Applicable Financial Statements (AFS)**

To comply with the De Minimis Safe Harbor (DMSH), a written capitalization policy must be in place for tax years beginning after December 31, 2013.

To qualify for the DMSH, the taxpayer:

* Must have an AFS;
* Must have a written policy in place prior to the beginning of the tax year (January 1, 2014 for calendar year taxpayers;
* Must report qualifying expenditures consistently for both tax purposes and financial statements; and,
* Must make an annual election with a tax return filed on a timely basis.

There must be a written policy for all separate trades or businesses and any separate legal entities, such as single member LLCs, who issue their own AFS. If other trades or businesses or separate entities do not issue AFS or are not included in a consolidated AFS, then see the separate sample policy for taxpayers without an AFS. Complete separate policy statements as needed.

[AFS define: An applicable financial statement for this purpose is a financial statement filed with the SEC; a certified audited financial statement issued by a CPA; or a financial statement (other than a tax return) required to be provided to a federal or state government or agency.]

Expenditures not qualifying under the safe harbor must be reviewed under the final regulations to determine whether they must be capitalized or are eligible to be expensed under other provisions. This de minimis rule allows taxpayers the flexibility to make elections to apply these guidelines on a year by year basis

Sample policy begins below.

………………………………………………………………………………………………………

[Name of my company or business]

**Capitalization Policy**

This accounting policy establishes the minimum cost (capitalization amount) that shall be used to determine the capital assets to be recorded in [name of business]’s annual financial statements.

[Name of business] hereby adopts the following policies, which collectively will be referred to as our Capitalization Policy:

1. All assets (whether an improvement, betterment, restoration, or adaption) or material and supplies expenditures of $5,000 [or enter some other amount, as appropriate to the size of your business – see Note below] or less will be written off (expensed) for our book financial statement purposes when paid or incurred. It will not matter whether these items are, in fact, an improvement, betterment, restoration, or adaption, but will be written off as an ordinary and necessary business expense.
2. This includes any and all assets, whether leased, leasehold improvements, financed, or paid for outright by [name of business].
3. The $5,000 [or same amount as used under #1] will be measured on a per item, per invoice basis.
4. This policy does not apply to purchases for land, inventory, or any expenditure that we elect to capitalize and depreciate.
5. Any asset expenditure that is expected to last one year or less when placed in service in our trade or business, no matter what dollar amount of expenditure, will be written off when the expenditure is paid or incurred, in accordance with our regular method of accounting employed in our income tax return preparation.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 Name and title

[Note: while the $5,000 threshold is the deduction “safe harbor” amount, a higher capitalization amount could be inserted above but the burden would be on the business to show that the increased amount clearly reflects income, or is otherwise reasonable, given the size of the business.]