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2014 BUSINESS & RENTAL PROPERTY ENGAGEMENT LETTER ADDENDUM

[Client Contact]
[Entity Name]
[Address]
[City, State ZIP]

In late 2014, the IRS released sweeping changes in the repair and capitalization policies that have been in existence for decades. The purpose of this letter is to explain the significant impact the **Tangible Property Repair Regulations (TPR)** have on this year's filing season. The TPR regulations, which were 10 years in the making, will impact every taxpayer that files a business tax return, including individuals filing schedules C, E and F. These changes are mandatory and must be completed as part of the 2014 tax return. This is a one-time adjustment that must be made for 2014. Tax returns that do not include the required forms, including Form 3115, will be scrutinized by the Internal Revenue Service. We are not permitted to sign a return that is not in compliance with these regulations.

While the 200 pages of regulations are extremely complex, I will attempt to summarize the key points and the impact it will have on your business or rental properties. In 2014, we are required to review all fixed assets, since inception, to determine if items currently being depreciated, can be expensed and that the correct depreciation methods are being used for those than cannot.

- **Materials and Supplies** – Defined as tangible property used or consumed in the taxpayer's business operations, including rentals. The following items can be expensed immediately and no longer will need to be depreciated:
    - Tools used to maintain a unit of property (UOP)
    - Consumables (fuel, lubricants, water; consumed in less 12 months)
    - Less than 1 year economic useful life
    - Unit of property costing $200 or less
    - De Minimis written policy increasing the amount to $500

  The De Minimis Safe Harbor Election must be filed to take advantage of this.

- **Repairs, Maintenance and Improvements to Buildings** – A qualifying taxpayer (annual gross receipts less than $10 million) may elect to deduct the total amount paid for repairs, maintenance, improvements and similar activities performed on eligible building property if the total spent during the year for each individual property does not exceed the lesser of:
    - $10,000 or
    - 2% of the unadjusted basis of the property (cost without depreciation)

  The Safe Harbor for Small Taxpayers must be filed to take advantage of this.

- **Routine Maintenance** – Refers to recurring activities that a taxpayer can expense in the current year that are needed to keep the unit of property in ordinary, efficient operating condition. Routine maintenance does not include activities that improves a unit of property or adapts it to a new use. To qualify, the taxpayer must “expect” to perform the activity:
    - More than once during the useful life of the non-building asset
    - More than once every 10 years for a building

  The Safe Harbor for Routine Maintenance must be filed to take advantage of this.

Actions Required Client

- Authorize us to prepare the capitalization policy to increase the De Minimis amount to $500
- Authorize us to complete the Safe Harbor for Small Taxpayers (building maintenance)
- Authorize us to complete the Safe Harbor for Routine Maintenance
- Review the depreciation schedule to identify disposals and add acquisitions or improvements. This was included in the organizer previously mailed.
- Be prepared to describe all repairs and improvements that are currently being depreciated
- Meet with a preparer to review the depreciation schedule

Actions Required by Our Firm

- Review all assets on the depreciation schedule to identify any adjustments that need to be made
- For each item requiring an adjustment, calculate the impact of the change in accounting method
- Prepare a supporting schedule for each item affected
- Prepare form 3115 and make the appropriate elections
- Complete a power of attorney for the taxpayer(s). Mail a hard copy of this to the IRS.
- Assemble a package containing form 3115, the supporting schedules for the changes and the power of attorney. Mail a hard copy of this to the IRS at Ogden, UT.

Financial and Tax Impact

This is a major undertaking that will require additional time, depending upon the amount of assets involved. It is likely that there will be a favorable tax impact by expensing many items that have a remaining basis, offsetting the fees that will be charged. However, there will be some instances, where there will be no impact or an unfavorable tax impact. The American Institute of CPAs (AICPA) is working with the Internal Revenue Service to obtain partial relief from the immense work that is being imposed on the tax preparer, resulting in increased fees to the taxpayer. They are requesting a reduction in the documentation required and to have the rules apply to future purchases of assets, and not ones purchased years ago, if elected by the taxpayer. Per the AICPA, we have two options:

- *Option 1: Continue under the new rules and adapt if/when the IRS issues relief.* The risk is that work performed today may need to be revised, may prove to be obsolete or unnecessary.

- *Option 2: Temporarily suspend all related work in hopes of near-term IRS relief.* The risk is that the IRS may not issue relief at all, returns may need be extended, but must be completed by the extension due date of 9/15/15 for businesses and 10/15/15 for individuals.

- *Not an Option: To disregard the laws and regulations and simply not comply.* Until/unless relief is granted, we cannot prepare the return without performing the activities defined above.

Our Recommendation

If you have questions or want us to prepare a recommendation for you, please send an email to christine@GBAaccounting.com or neb@GBAaccounting.com with "Review TPR Options" in the subject line. We will review your depreciation schedule to determine the extent of work that will be required, discuss the best option for you and provide you with an estimate of our fees and whether we anticipate that it will have a favorable or unfavorable tax impact. If you want us to complete the work without a review, provide us with your tax information and a signed engagement letter.

Our fee for these services are in addition to the normal tax return fees and will be based upon our standard billing rates plus out-of-pocket expenses, such as postage, overnight delivery, etc. Payment of the additional fees are due upon completion of the returns.

You may terminate this engagement at any time. Should you do so, however, you remain liable for all unpaid fees as discussed above. We reserve the right to withdraw from this engagement at any time because of unpaid fees, the guidance of our professional standards, or for any other reason. We will notify you in advance of any decision by us to withdraw, and will take all reasonable steps to assist in the orderly transfer of your tax services. Otherwise, this engagement will be considered complete upon acceptance of your e-filed returns by the tax authorities. In the event that your returns are not e-filed, you will have final responsibility for mailing your returns to the applicable taxing authorities.

If the foregoing is in accordance with your understanding, please sign this letter in the space provided and return it to us along with your tax information. If you have any questions, please do not hesitate to contact us. As always, we thank you for your referrals. We appreciate the opportunity to be of service to you.

Sincerely,
Geety, Blair & Araya, PA

Katrina A Geety

Katrina Geety, CPA & President
February 11, 2015

We have selected the following option (see above for risks):
[ ] Option 1: Continue under the new rules and adapt if/when the IRS issues relief.
[ ] Option 2: Temporarily suspend all related work in hopes of near-term IRS relief.

I would also like to elect:
[ ] to make the De Minimis Safe Harbor Election (materials and supplies)
[ ] to make the Safe Harbor for Small Taxpayers (building maintenance)
[ ] to make the Safe Harbor for Routine Maintenance (not to capitalize costs)

Accepted by:

____
Signature

________________ ______________________
Date Title