

Business Name

Business Address

Effective Date

Capitalization Policy for the Acquisition of Company-Owned Fixed Assets

Purpose: These guidelines shall be observed by the management and staff of the company who are directly concerned with the accounting and management of all company-owned fixed assets in relation to all transactions related to the acquisition of such assets.

These guidelines are intended to be in accordance with Generally Accepted Accounting Principles, federal regulations and requirements of authorized examining bodies, as well as the capitalization provisions embodied in Sections 263A and 263(a) of the Internal Revenue Code, Treas. Reg. Sec. 1.263(a)-1, Treas. Reg. Sec. 1.263(a)-2, and Treas. Reg. Sec. 1.263(a)-3.

Capitalization: A reference to the words “capitalize”, “capitalizing” or “capitalization” would mean that the fixed assets shall be included in the company’s list of fixed assets, whose acquisition costs, fabrication or development costs, including all indirect and material expenses related to its acquisition, production or development, will be recovered throughout the years of its estimated useful life, by means of depreciation or amortization.

Fixed Assets: These refer to the non-consumable, tangible or intangible objects procured by the company as implements, tools, equipment, furniture, fixture to the official place(s) of business for the purpose of carrying out all aspects of business operations with a useful life longer than 12 months.

These physical objects do not include those that were purchased for resale and shall be clearly distinguished as different from those included under the merchandise inventory of stocks that form part of the company’s cost of goods sold.

Materials & Supplies: Non-incidentals items (fixed assets) with direct and indirect cost totaling less than **\$5,000** shall be expensed as materials and supplies under the *De Minimis* Safe Harbor unless management elects to capitalize the item.

Renovation, Overhaul or Repairs: Renovations, overhauls and major repairs of all fixed assets amounting to **\$5,000** or more shall be analyzed to determine whether the alterations or repairs enhance the usefulness, efficiency or capability of the fixed asset. Amounts less than this threshold shall be expensed.

Examples of the fixed assets existing in the company to which these capitalization guidelines will apply are as follows:

- Machinery and Equipment
- Vehicles
- Office Furniture and Equipment
- Computer Equipment and Software
- Building and Leasehold Improvements