



# PASQUESI PARTNERS

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Pasquesi Partners LLC

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A MODERN APPROACH TO ACCOUNTING AND TAX SERVICES.

## COMPANY CAPITALIZATION POLICY TEMPLATE

Effective January 1, 2016



### IMPORTANT:

For each individual tangible purchase, to receive the Safe Harbor tax deduction benefit, each purpose must be separately stated on the invoice. For example, if you purchased a computer for \$2,000 and printer for \$750, and your invoice just states \$2,750, under Example 2, you will NOT be able to expense the purchase of \$2,000 and \$750, and instead need to capitalize and depreciate it.

**Example 1** - for companies that use Applicable Financial Statements (i.e., file with SEC, audited financial statements by a CPA firm, or financial statements required for Federal and Government purposes - non IRS or SEC).

*Purpose:* This accounting policy establishes the minimum cost (capitalization amount) that shall be used to determine the capital assets that are to be recorded in \_\_\_\_\_ (business name)'s books and recorded for tax purposes.

*Fixed asset definition:* A "Capital Asset" is defined as a unit of property that: (1) has an economic useful life that extends beyond 12 months; and (2) was acquired or produced for a cost greater than \$5,000. Fixed assets must be capitalized and depreciated for book and tax purposes.

*Capitalization thresholds:* \_\_\_\_\_ (business name) establishes \$5,000 as the minimum threshold amount for capitalization. Fixed assets costing below this amount shall be expensed in its financial statements (or books).

*Capitalization method and procedure:* Fixed assets shall be recorded at historical cost as of the date acquired, and depreciated beginning on the date the fixed asset is placed in service.



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Tangible assets costing less than the threshold stated above shall be recorded as an expense for financial statement and tax purposes. Alternatively, assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

\*\*\* Invoices substantiating an acquisition costs of each unit of property shall be retained for a minimum of four years.

### **Example 2 – for companies that do NOT use Applicable Financial Statements**

*Purpose:* This accounting policy establishes the minimum cost (capitalization amount) that shall be used to determine the capital assets that are to be recorded in \_\_\_\_\_ (business names)'s books and recorded for tax purposes.

*Fixed asset definition:* A "Capital Assets" is defined as a unit of property that: (1) has an economic useful life that extends beyond 12 months; and (2) was acquired or produced for a cost greater than \$2,500. Fixed assets must be capitalized and depreciated for book and tax purposes.

*Capitalization thresholds:* \_\_\_\_\_ (business name) establishes \$2,500 as the minimum threshold amount for capitalization. Fixed assets costing below this amount shall be expensed in its financial statements (or books).

*Capitalization method and procedure:* Fixed assets shall be recorded at historical cost as of the date acquired, and depreciated beginning on the date the fixed asset is placed in service.

Tangible assets costing less than the threshold stated above shall be recorded as an expense for financial statement and tax purposes. Alternatively, assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

*Following examples were published by the AICPA.*



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