Increase your current business deductions under tangible property safe harbors

Did your business make repairs to tangible property, such as buildings, equipment or vehicles, in 2025? Such costs may be fully deductible on your 2025 income tax return — if they weren't actually for "improvements" that must be depreciated over a period of years.

Betterment, restoration or adaptation

In general, a cost that results in an improvement to a building structure or any of its building systems (for example, the plumbing or electrical system) or to other tangible property must be capitalized, with depreciation deductions spread over a few years or longer (depending on depreciation method and property type). An improvement occurred if there was a betterment, restoration or adaptation of the unit of property.

Under the "betterment test," you generally must capitalize amounts paid for work that's reasonably expected to materially increase the productivity, efficiency, strength, quality or output of a unit of property or that's a material addition to a unit of property.

Under the "restoration test," you generally must capitalize amounts paid to replace a part (or combination of parts) that is a major component or a significant portion of the physical structure of a unit of property.

Under the “adaptation test,” you generally must capitalize amounts paid to adapt a unit of property to a new or different use — one that isn’t consistent with your ordinary use of the unit of property at the time you originally placed it in service.

Immediate deduction safe harbors

Costs incurred on incidental repairs and maintenance can be expensed and immediately deducted. But distinguishing between repairs and improvements can be difficult. A few IRS safe harbors can help:

Routine maintenance safe harbor. Recurring activities dedicated to keeping property in efficient operating condition can be expensed. These are activities that your business reasonably expects to perform more than once during the property’s “class life,” as defined by the IRS.

Amounts incurred for activities outside the safe harbor don’t necessarily have to be capitalized, though. These amounts are subject to analysis under the general rules for improvements.

De minimis safe harbor. Amounts paid for tangible property can be currently deducted for tax purposes if those amounts are deducted for financial accounting purposes or in keeping your books and records. However, a dollar limit applies:

- $5,000 if you have an “applicable financial statement,” generally meaning one that’s audited by a CPA, or
- $2,500 if you *don’t* have an applicable financial statement.

Additional rules apply that may limit or eliminate your current deduction for a particular expense.

Small business safe harbor. For buildings that initially cost $1 million or less, qualified small businesses may elect to deduct the lesser of $10,000 or 2% of the unadjusted basis of the property for repairs, maintenance, improvements and similar activities each year. A qualified small business is generally one with average annual gross receipts of $10 million or less for the past three tax years.

A variety of tax-saving opportunities

As you can see, various options may be available to immediately deduct repair and maintenance costs safely. But keep in mind that improvements might also be eligible to be deducted immediately in certain circumstances, such as if they qualify for 100% bonus depreciation or Section 179 expensing. Contact us to discuss what you can deduct on your 2025 return and to start planning for tax-efficient repairs, maintenance and improvements in 2026.