



The tax implications if your business engages in environmental cleanup

If your company faces the need to “remediate” or clean up environmental contamination, the money you spend can be deductible on your tax return as ordinary and necessary business expenses. Of course, you want to claim the maximum immediate income tax benefits possible for the expenses you incur.

These expenses may include the actual cleanup costs, as well as expenses for environmental studies, surveys and investigations, fees for consulting and environmental engineering, legal and professional fees, environmental “audit” and monitoring costs, and other expenses.

Current deductions vs. capitalized costs

Unfortunately, every type of environmental cleanup expense cannot be currently deducted. Some cleanup costs must be capitalized. But, generally, cleanup costs are currently deductible to the extent they cover:

- “Incidental repairs” (for example, encapsulating exposed asbestos insulation); or
- Cleaning up contamination that your business caused on your own property (for example, removing soil contaminated by dumping wastes from your own manufacturing processes, and replacing it with clean soil) — if you acquired that property in an uncontaminated state.

On the other hand, remediation costs generally have to be capitalized if the remediation:

- Adds significantly to the value of the cleaned-up property,
- Prolongs the useful life of the property,
- Adapts the property to a new or different use,
- Makes up for depreciation, amortization or depletion that’s been claimed for tax purposes, or

- Creates a separate capital asset that's useful beyond the current tax year.

However, parts of these types of remediation costs may qualify for a current deduction. It depends on the facts and circumstances of your situation. For example, in one case, the IRS required a taxpayer to capitalize the costs of surveying for contamination various sites that proved to be contaminated, but allowed a current deduction for the costs of surveying the sites that proved to be uncontaminated.

Maximize the tax breaks

In addition to federal tax deductions, there may be state or local tax incentives involved in cleaning up contaminated property. The tax treatment for the expenses can be complex. If you have environmental cleanup expenses, we can help plan your efforts to maximize the deductions available.