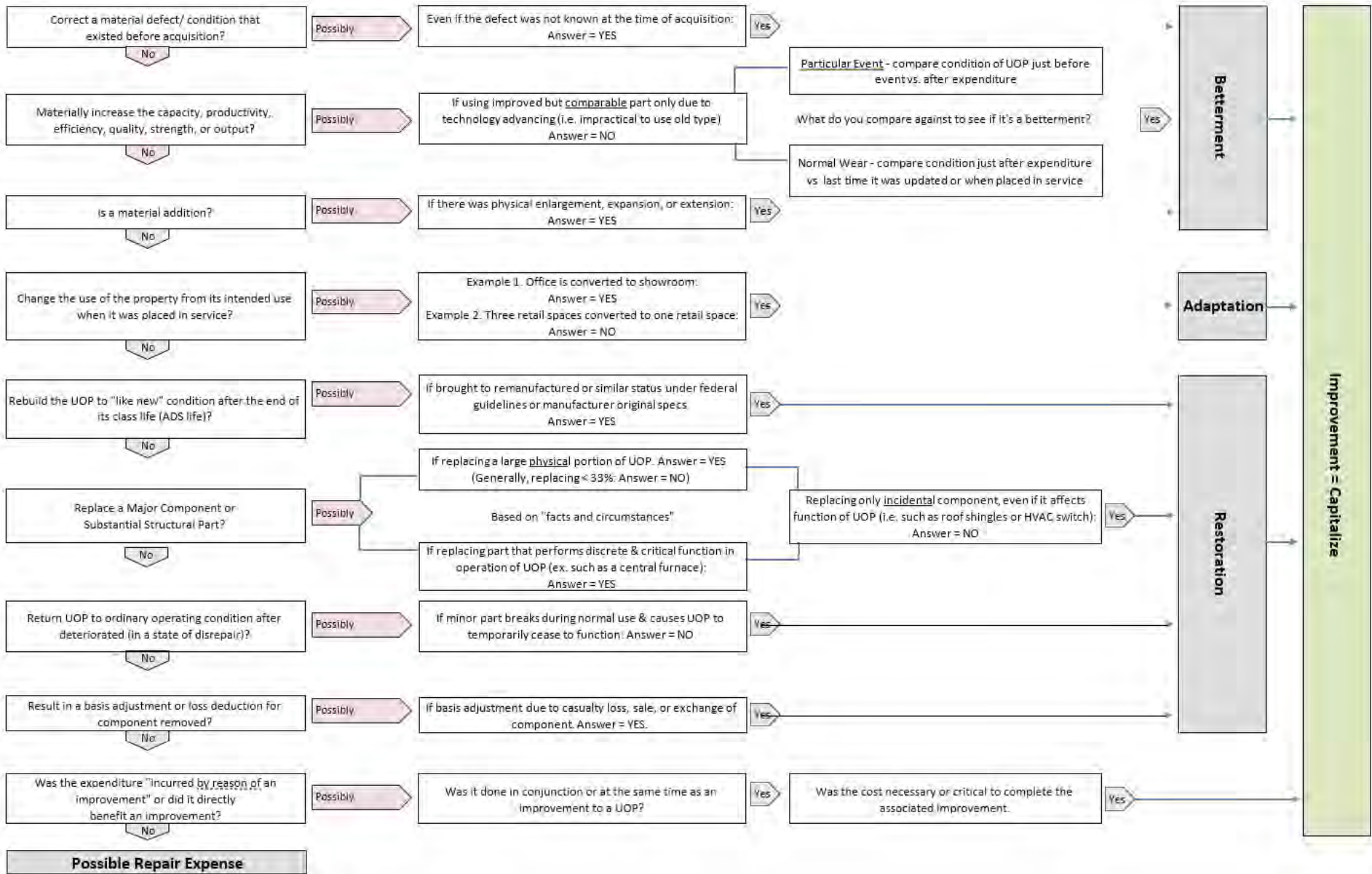


# KBKG Repair vs. Capitalization: Improvement Decision Tree - Final Regulations

Considering the appropriate Unit of Property (UOP), does the expenditure (Last Updated 03-20-2015):



## KBKG Building Unit of Property & Major Components Chart *updated 05-16-17*

This chart was created to help users identify building systems & typical "major components" in real estate assets. Replacing a major component is a capital expenditure while replacing an incidental component can be expensed

Real Estate Major Component (examples)	Building Structure	Land Improvements	HVAC System	Electrical System	Plumbing Systems	Fire Protection System	Security System	Gas Distribution System	Escalators	Elevators
	<ul style="list-style-type: none"> <li>• Roof System (membrane, insulation &amp; structural supports)</li> <li>• Foundation</li> <li>• Other structural Load Bearing Elements, including stairs</li> <li>• Exterior Wall System</li> <li>• Ceilings</li> <li>• Floors</li> <li>• Doors</li> <li>• Windows</li> <li>• Partitions</li> <li>• Loading Docks</li> </ul>	<ul style="list-style-type: none"> <li>• Landscaping including shrubs, trees, ground cover, lawn, irrigation</li> <li>• Storm drainage including inlets, catch basins, piping, lift stations</li> <li>• Site lighting (pole lights, bollard lights, up lights, wiring)</li> <li>• Hardscape (retaining walls, pools, water features)</li> <li>• Site Structures (gazebo, carport, monument sign)</li> <li>• Paving (roads, driveway, parking areas, sidewalks, curbing)</li> </ul>	<ul style="list-style-type: none"> <li>• Heating System (boilers, furnace, radiators)</li> <li>• Cooling System (compressors, chillers, cooling towers)</li> <li>• Rooftop Packaged Units</li> <li>• Air Distribution (Ducts, fans, etc)</li> <li>• Piping (heated, chilled, condensate water)</li> </ul>	<ul style="list-style-type: none"> <li>• Service &amp; Distribution (panel boards, transformers, switchgear, metering)</li> <li>• Lighting (interior &amp; exterior building mounted)</li> <li>• Site Electrical Utilities</li> <li>• Branch Wiring (outlets, conduit, wire, devices etc.)</li> <li>• Emergency Power Systems</li> </ul>	<ul style="list-style-type: none"> <li>• Plumbing Fixtures (sinks, toilets, tubs etc.)</li> <li>• Wastewater System (drains, waste &amp; vent piping)</li> <li>• Domestic Water (supply piping and fittings)</li> <li>• Water Heater</li> <li>• Site Piping Utilities</li> </ul>	<ul style="list-style-type: none"> <li>• Sprinkler System (piping, heads, pumps)</li> <li>• Fire Alarms (detection &amp; warning devices, controls)</li> <li>• Exit lighting &amp; signage</li> <li>• Fire Escapes</li> <li>• Extinguishers &amp; hoses</li> </ul>	<ul style="list-style-type: none"> <li>• Building security alarms</li> <li>• (detectors, sirens, wiring)</li> <li>• Building access &amp; control system</li> </ul>	<ul style="list-style-type: none"> <li>• Gas piping including to/ from property line &amp; other buildings</li> </ul>	<ul style="list-style-type: none"> <li>• Stair and Handrail</li> <li>• Drive System (motors, truss, tracks)</li> </ul>	<ul style="list-style-type: none"> <li>• Elevator Car</li> <li>• Drive System (motors, lifts, controls)</li> <li>• Suspension system (counterweights, framing, guide rails)</li> </ul>

\* Building unit of property (UOP) rules apply to each building structure located on a single property.

\*\* Building system components with a different tax life are separate units of property. For example, a cost segregation study separating HVAC into 5-year & 39-year categories for a restaurant creates two separate HVAC units of property.

**Lessee of Building** Must apply the same units of property above but only to the portion of the building being leased.  
**Personal Property** UOP are parts that are "functionally interdependent" i.e. placing one part in service is dependent on placing the other part in service.  
**Plant Property** UOP is each component that performs a discrete and critical function. Generally, each piece of machinery or equipment purchased separately.  
**Network Assets** UOP is determined by taxpayer's particular facts

### Definitions

**Plant Property** Machinery & Equipment used to perform an industrial process such as manufacturing, generation, warehousing, distribution, automated materials handling, or other similar activities  
**Network Assets** Railroad track, oil & gas pipelines, water & sewage pipelines, power transmission & distribution lines, telephone & cable lines; -- owned or leased by taxpayers in each of those respective industries.  
**Major Component** Part or combination of parts that performs a discrete and critical function in the operation of the unit of property  
**Incidental Component** Relatively small, inexpensive, or minor part that performs a discrete and critical function for the UOP. Generally, not capitalized because of its size, cost, or significance.

**KBKG is a specialty tax firm that works directly with CPAs and businesses to provide value-add solutions to our clients. Our engineers and tax experts have performed thousands of tax projects resulting in hundreds of millions of dollars in benefits. Our services include Research & Development Tax Credits, Cost Segregation, Repair vs. Capitalization 263(a) Review, IC-DISC, Green / Energy Tax Incentives (179D for Designers, 45L for Multifamily), and Fixed Asset Depreciation Review.**

KBKG expressly disclaims any liability in connection with the use of this document or its contents by any third party. Any US tax advice contained herein was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code (IRC) or applicable state or local tax law provisions. This document is for educational purposes only and is not intended, and should not be relied upon, as accounting or tax advice.