

Abstract: Any business that needs to “remediate” or clean up environmental contamination will find that some of the cleanup costs are currently deductible, while others may have to be capitalized over multiple years. This article provides examples of which remediation costs can be claimed for a deduction right away.

The tax impact of business property remediation

If your company faces the need to “remediate” or clean up environmental contamination, the money you spend can be tax-deductible as ordinary and necessary business expenses. Unfortunately, every type of environmental cleanup expense cannot be currently deducted — some cleanup costs must be capitalized (spread over multiple years for tax purposes).

Of course, to lower your tax bill as much as possible, you want to claim as many immediate income tax benefits as allowed for the expenses you incur. So, it’s a good idea to explore the tax impact of business property remediation before you embark on the project. (If you’ve already done the cleanup, review the costs closely before filing your company’s tax return.)

Deduct vs. capitalize

Generally, cleanup costs are currently deductible to the extent they cover “incidental repairs” — for example, encapsulating exposed asbestos insulation. Other deductible 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, and environmental “audit” and monitoring costs.

You may also be able to currently claim tax deductions for 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 must be capitalized if the remediation:

- Adds significantly to the value of the cleaned-up property,
- Prolongs the useful life of the property, or
- Adapts the property to a new or different use.

In addition, you’ll likely need to capitalize the costs if the remediation makes up for depreciation, amortization or depletion that’s been claimed for tax purposes, or if it 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 instance, in one case, the IRS required a taxpayer to capitalize the costs of surveying for contamination various sites that proved to be contaminated, but the agency allowed a current deduction for the costs of surveying the sites that proved to be uncontaminated.

Complex treatment

Along with federal tax deductions, state or local tax incentives may be available for 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.

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