Is the cost of a tile-outlet terrace system fully deductible under soil and water conservation expenditures of Code Section 175? The issue of this question is whether the cost of the “tile” for the terrace system should be depreciated as a separate asset.

To be forthright, I had never given this issue any substantial thought until a farmer telephoned this past tax season asking my opinion because his return preparer was insisting the cost of the tile outlet be reported as a depreciable asset.

After reviewing the IRS Code Section 175 and Regulation 1.175-2 I think an auditor could make a case for depreciating the tile outlet. The Regulation 1.175-2(b) states “...Section 175 applies only to expenditures for nondepreciable items. Accordingly, a taxpayer may not deduct expenditures for the purchase, construction, installation, or improvement of structures, appliances, or facilities subject to allowance for depreciation.”

A cursory telephone survey of some area return preparers/CPAs reveals the general industry practice appears to consider the terrace system expenditures as a deductible soil and water conservation expense. However, if your records and documents clearly identifies the terrace and tile as separate transactions, don’t be too surprised if your return preparer insists on depreciating the tile. The preparers that did state they had sometimes depreciated tile outlets, also indicated they never ask clients if tile is involved unless it is itemized. Sounds like the DON’T ASK – DON’T TELL policy!

Observation: the issue of this debate will probably never arise if your checks are issued to one general contractor for the construction of a terrace system, or if the checks carry descriptions that emphasize “terrace system” and avoid the word “tile”!!!