

# IRS Uniform Capitalization Rules (UNICAP)

<https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Capitalization-Period-of-Direct-and-Indirect-Costs>

## Activities Subject to the Rules

You are subject to the uniform capitalization rules if you do any of the following in the course of a trade or business or an activity carried on for profit:

- Produce real or tangible personal property for use in the business or activity
- Produce real or tangible personal property for sale to customers
- Acquire property for resale. However, this rule does not apply to personal property if your average annual gross receipts are \$10 million or less

## UNICAP Guidelines

The following listing reviews common costs and the treatment required under UNICAP for costs that benefit or are directly associated with the production activities. Mixed Service Costs benefit the operation as a whole and must be allocated between the cost centers to which they apply.

Description	Production	Non-Production	Mixed Service Cost
Direct Labor	X		
Direct Materials	X		
Repairs/Maintenance - Production	X		
Repairs - Not Production		X	
Utilities	X		
Rent	X		
Indirect Labor	X		
Material & Supplies	X		
Small Tools & Equipment	X		
Quality Control	X		
Excise Tax (Paid Prior to Sale)	X		
Income Taxes		X	
Real Estate Taxes	X		
Payroll Taxes	X		

Depreciation	X		
Amortization	X		
Allocable Administration Costs	X		
Officer's Salary (Production)	X		
Insurance	X		
Pension Plans	X		
Employee Benefits	X		
Bottling & Packaging Labor	X		
Rework Labor (scrap, spoilage)	X		
Warehousing	X		
Off-site Storage	X		
Purchasing Department	X		
Shipping (Purchases)	X		
Shipping (Sales)		X	
Marketing & Promotion			X
Selling Expenses		X	
Strikes		X	
G&A - Directly for Production	X		
Mixed Service Costs Personnel			X
Data Processing		X	
Accounting			X
Security Services			X
Management - Overall Policy	X		
Tax Department	X		

Internal Audit	X		
----------------	---	--	--

**Direct Costs**

- Direct Labor
- Direct Materials

**Indirect Costs Required to be Capitalized**

- Indirect labor costs
- Officers compensation
- Pension and other related cost
- Employee benefit expenses
- Indirect material costs
- Purchasing costs
- Handling costs
- Storage costs
- Cost recovery allowances on equipment, including depreciation and amortization
- Depletion
- Rent
- Taxes
- Insurance
- Utilities
- Repairs and maintenance
- Engineering and design costs
- Spoilage
- Tools and equipment
- Quality control
- Bidding costs
- Licensing and franchise costs
- Interest
- Capitalizable service costs

**Indirect Costs Not Required to be Capitalized**

- Selling and distribution costs
- Research and experimental expenditures
- IRC section 179 costs
- IRC section 165 costs
- Cost recovery allowances on temporarily idle equipment and facilities
- Taxes assessed on the basis of income
- Strike expenses
- Warranty and product liability costs
- On site storage costs
- Unsuccessful bidding expenses
- Deductible service costs