Determining the treatment of amounts paid or incurred to acquire or produce materials and supplies under the final tangible property regulations Reg. section 1.162-3* 

**DISCLAIMER** - This flowchart is intended to provide only general and high-level guidance regarding the treatment of amounts paid or incurred for materials and supplies under Reg. section 1.162-3 of the final tangible property regulations. This flowchart neither addresses the treatment of temporary or emergency spare parts nor addresses the treatment of rotable spare parts. Additionally, this chart does not address whether material and supply costs are subject to capitalization under another section of the Internal Revenue Code or Treasury Regulations thereunder (e.g., section 263A or Reg. section 1.263(a)-3). Taxpayers should not rely solely on this flowchart in determining how to treat expenditures for federal income tax purposes and should discuss their specific facts and circumstances with their tax advisors prior to making any decisions regarding the federal income tax treatment of any expenditures for tangible property.