



TaxNewsFlash

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Final regulations: Interest capitalization requirements for improvements that constitute designated property

The U.S. Treasury Department and IRS today released [final regulations](#) (T.D. 10034) that, with regard to the interest capitalization requirements for improvements constituting designated property under section 263A(f):

- Remove the “associated property rule” and similar rules from Treas. Reg. § 1.263A-11(e)(1)(ii) and (iii)
- Modify the definition of “improvement” under Treas. Reg. to § 1.263A-11(f) to clarify that Treas. Reg. § 1.263A-11(f) applies only to property purchased and further produced before it is placed in service
- Amend Treas. Reg. § 1.263A-8(d)(3) to update the definition of “improvement” so that it is consistent with the modified definition of “improvement,” including the exceptions, safe harbors, and elections provided under Treas. Reg. § 1.263(a)-3

The final regulations adopt the proposed regulations issued in May 2024 with only minor, clarifying changes. In particular, the final regulations made minor changes to proposed Treas. Reg. § 1.263A-8(d)(3)(i) to clarify the scope of improvements that constitute the “production of property” for purposes of determining whether any such improvement is designated property under Treas. Reg. § 1.263A-8.

The final regulations are effective as of the date they are published in the Federal Register, which is scheduled to be October 2, 2025, and apply to tax years beginning after that date.

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