



# Capitalization Threshold Increase Agency Guide

**From \$5,000 to \$10,000**

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Statewide Accounting and Reporting Services (SARS)

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## Capitalization Threshold Increase – From \$5,000 to \$10,000

### Background

#### What happened?

The minimum capitalization threshold for equipment purchases subject to Uniform Guidance increased from \$5,000 to \$10,000. Through careful consideration, the Office of the State Controller has decided to continue the effort of being tied to the Uniform Guidance threshold and selected \$10,000 as the new threshold for capitalizing all assets, including leases, and subscription-based IT arrangements (SBITAs).

#### When did this happen?

The capitalization threshold increase is effective as of July 1, 2025, fiscal year 2026.

#### Who does this affect?

This capitalization threshold increase applies to all state agencies.



#### Definitions

*Historical cost:* The amount paid, or liability incurred, by an accounting entity to acquire an asset and make it ready to render the services for which it was acquired.

*Net book value:* The historical cost of a capital asset less any accumulated depreciation or amortization. Also known as the carrying value.

### Net Book Value vs Historical Costs

The removal of the asset depends entirely on the historical cost of the asset. The scenarios below should help determine which steps to take.

#### **Net Book Value $\geq$ \$10,000 | Historical Cost $\geq$ \$10,000**

Assets with both the net book value and the historical cost **equal to or greater than** \$10,000 should remain included in the agency's capital asset records. No adjustment is necessary.

#### **Net Book Value $<$ \$10,000 | Historical Cost $\geq$ \$10,000**

Assets with the net book value below \$10,000, while the respective historical cost is **equal to or greater than** \$10,000 should remain included in the agency's capital asset records. No adjustment is necessary.

#### **Net Book Value $<$ \$10,000 | Historical Cost $<$ \$10,000**

Assets with both the net book value and the historical cost **below** \$10,000 should no longer be included in the agency's capital asset records. Refer to examples 1-3 for additional guidance.

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### Frequently Asked Questions (FAQs)

SARS has received the following questions from various agencies throughout the implementation of this capitalization threshold change.

#### **1) Which capital assets do we need to consider with this change in capitalization threshold?**

Agencies need to consider all capital assets, including leases and SBITAs. There are no capital asset exceptions.

#### **2) Our agency has a situation in which a capital asset's historical cost was below \$10,000 and it is almost fully depreciated. It will be fully depreciated in fiscal year 2026. Do we still go through the process of removing this capital asset based on this threshold increase or can we let it fully depreciate?**

The capital asset should be removed. Per the State's policy, only capital assets with a historical cost at or above the capitalization threshold should be included in the agency's capital asset records. Capital assets that fall below the threshold, regardless of their depreciation or amortization status, should be removed. The removal should also include any associated depreciation or amortization.

#### **3) When do the necessary capital assets and their associated depreciation or amortization need to be removed or disposed?**

All capital asset disposal journal entries need to be recorded during fiscal year 2026, prior to the close of month 13. If there are several entries to be made, SARS recommends and encourages agencies to record their disposal entries as soon as possible to avoid overlap with year-end close activities. Recording the necessary journal entries now, or gradually over time, will help ensure there is no conflict of time between these entries and year-end requirements.



#### **4) Do we remove the asset if it is still placed in service and in use?**

Yes, all assets with historical costs of less than \$10,000 need to be removed from the agency's capital asset records even if the asset is still in use.

#### **5) During fiscal year 2025, we were unaware of this capital asset threshold change and added several new assets that were below \$10,000. Do we still need to remove them this year?**

Yes, all capital assets with historical costs of less than \$10,000 need to be removed from the agency's capital asset records, even if the asset was placed in service during fiscal year 2025.

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### **6) When recording the journal entries to remove these assets, do we indicate any cash received for them?**

No, these journal entries are not for the sale of the capital asset, so no sales proceeds should be recorded. If the asset is not fully depreciated at the time of disposal, a loss on disposal will be recorded. If the asset relates to a lease or SBITA, a gain or loss could be recognized depending on the amount of the remaining obligation compared to the net book value. Refer to the examples on pages 5-7 for additional information.

### **7) We have several assets to remove that are not fully depreciated. This will mean we need to record several losses on disposal of the assets since there are no sale proceeds. Is that correct?**

Yes. We anticipate the loss on disposal of capital assets to be higher in fiscal year 2026 compared to prior years.

### **8) We have several assets in which the asset value is valued below \$10,000 due to several years of depreciation. Do these assets need to be removed?**

The value in question is the net book value (refer to “Definitions” on page 1). Assets are not removed based on their respective net book value. This threshold change focuses on the historical cost when determining whether the asset should be removed or remain on the agency’s capital asset records.



### **9) Does the agency record fiscal year 2026 depreciation and amortization on capital assets disposed of because they fall beneath the updated threshold?**

No, the effective date of the disposal is July 1, 2025, therefore, there is no fiscal year 2026 depreciation or amortization expense for any capital assets removed because they fall beneath the updated threshold.

### **10) After the disposal of the capital asset is recorded, does a change in accounting principle entry need to be made?**

No, pursuant to Q 4.11 in the 2025 Governmental Accounting Standards Board (GASB) Implementation Guide, a change in the capitalization threshold is not a change in accounting principle.

### **11) Which T-codes are used to record these disposals?**

Refer to the examples on pages 5-7 for guidance on specific T-codes to use.

### **12) What if we accidentally capitalized an asset in fiscal year 2026 that has a historical cost below \$10,000?**

If an asset was recorded in fiscal year 2026 that was below the new capitalization threshold, agencies should reverse the entries to ensure those balances do not remain in R\*STARS at the end of month 13. It’s important to note that T-code 545R may be used to reverse the capitalization, however, this should only be done in the same fiscal year as the original entry.

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### **13) When considering this change in capitalization threshold, which GL balances should be reviewed and adjusted accordingly?**

Refer to the Capital Asset and Accumulated Amortization and Depreciation GLs at the end of this guide (page 8).

### **14) What is the impact on the new capitalization threshold on the disclosures?**

Agencies should complete their fiscal year 2026 disclosures in the same manner as in prior years. There were no changes to the disclosure requirements as a result of the capitalization threshold increase.

### **15) What do we do if our leased asset is \$6,000?**

The leased asset, associated amortization of the asset, and the lease liability will all need to be disposed. The same treatment would apply for capital assets related to a SBITA. Refer to the examples on pages 6-7 for lease and SBITA disposal entries.

### **16) From a significance perspective, at what level are agencies able to review assets for disposal? Are agencies able to review GL account balances on their own, or is examining each individual asset necessary?**

Since the GL account balance will potentially contain multiple capital assets, reviewing only the GL account balances for anything below \$10,000 would not be sufficient. The capitalization threshold is applied based on the individual asset's historical cost, not the total balance of a GL account. Therefore, reviewing assets at the GL account level would not provide the necessary detail to determine whether each asset falls below the \$10,000 threshold. Agencies must evaluate assets individually to ensure compliance with the updated policy.

### **17) Does each asset need to be disposed with separate and individual journal entries, or can the disposal entries be grouped together?**

If feasible, agencies may dispose of assets in groups by GL account, as this would be more efficient. For example, if the agency has 20 machines with a \$6,000 historical cost, one disposal entry can potentially be recorded for GL accounts 0815 (Equipment and Machinery) and 0869 (Accum Depreciation – Equipment & Machinery) if the assets and accumulated depreciation are in the same D23 fund.

### **18) What is the expected time commitment for removing these assets?**

SARS is unaware of the total number of capital assets recorded for each respective agency below the new \$10,000 threshold and, therefore, cannot estimate the time to complete this process. However, we strongly recommend that agencies begin reviewing their capital asset records as soon as possible. Starting early will allow sufficient time to assess and complete the necessary disposals prior to month 13 of fiscal year 2026.



## Capitalization Threshold Increase – From \$5,000 to \$10,000

### Example #1: Journal Entries – Capital Assets

The following are example journal entries that should be followed in order to remove the capital assets from R\*STARS. These assets will be completed through a disposal with no sales proceeds. Therefore, a loss on disposal will need to be recorded, unless the asset is fully depreciated. (COBJ = comptroller object)

#### Government-wide Reporting Fund

If the piece of equipment had a historical cost of \$9,000 and accumulated depreciation of \$7,000 (partially depreciated). A loss on disposal is recognized for the \$2,000 net book value of the asset that was removed.

**T-code 573:** To remove accumulated depreciation.

DR GL 0869	Accumulated Depreciation – Equipment and Machinery	7,000	
CR GL 2951	System Clearing GL		7,000

**T-code 574:** To remove fully depreciated asset.

DR GL 2951	System Clearing GL	7,000	
CR GL 0815	Equipment and Machinery		7,000

**T-code 537:** To remove unexpired cost using COBJ 2330 – Gain (Loss) on Disposal.

DR GL 3200	GAAP Revenue Offset	2,000	
DR GL 3018	Net Investment in Capital Assets	2,000	
CR GL 0815	Equipment and Machinery		2,000
CR GL 3074	Change in Capital Assets		2,000

#### Enterprise Fund

If the vehicle had a historical cost of \$8,000 and accumulated depreciation of \$8,000 (fully depreciated).

**T-code 573:** To remove accumulated depreciation.

DR GL 0872	Accumulated Depreciation – Motor Vehicles	8,000	
CR GL 2951	System Clearing GL		8,000

**T-code 574:** To remove fully depreciated asset.

DR GL 2951	System Clearing GL	8,000	
CR GL 0816	Motor Vehicles		8,000

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### Example #2: Journal Entries – Leases

The following are example journal entries that should be followed in order to remove the assets **related to leases** from R\*STARS. These assets will be completed through a disposal with no sales proceeds. A gain or loss could be recorded depending on the asset's net book value compared to the remaining lease liability.

#### Government-wide Reporting Fund

If the piece of leased equipment had a historical cost/commencement amount of \$6,000 and accumulated amortization of \$4,000 (partially amortized). The remaining lease liability is \$3,000 (with \$1,200 being current). The result of the \$2,000 loss from disposing of the leased asset is combined with the \$3,000 gain from removing the associated lease liability, resulting in a net gain of \$1,000 for this transaction.

**T-code 475R:** To reduce lease liability – Current.

DR GL 1281	Lease Obligation – Current	1,200	
CR GL 2951	System Clearing GL		1,200

**T-code 475:** To adjust lease liability – Noncurrent.

DR GL 2951	System Clearing GL	1,200	
CR GL 1716	Lease Obligation – Noncurrent		1,200

**T-code 573:** To remove accumulated amortization.

DR GL 0886	Amortization of Lease – Equipment & Machinery	4,000	
CR GL 2951	System Clearing GL		4,000

**T-code 574:** To reduce asset value by the amount above.

DR GL 2951	System Clearing GL	4,000	
CR GL 0821	Leased Equipment & Machinery		4,000

**T-code 537:** Eliminate excess asset value, record gain/(loss) using COBJ 2331.

DR GL 3200	GAAP Revenue Offset	2,000	
DR GL 3018	Net Investment in Capital Assets	2,000	
CR GL 0821	Leased Equipment & Machinery		2,000
CR GL 3074	Change in Capital Assets		2,000

**T-code 462R:** Adjust lease liability (as necessary) using COBJ 2331.

DR GL 1716	Lease Obligation – Noncurrent	3,000	
CR GL 3200	GAAP Revenue Offset		3,000

#### Enterprise Fund

The entries are similar to the government-wide entries described above.



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### Example #3: Journal Entries – Subscription-Based IT Arrangements (SBITAs)

The following are example journal entries that should be followed in order to remove the assets **related to a SBITA** from R\*STARS. These assets will be completed through a disposal with no sales proceeds. A gain or loss could be recorded depending on the asset's net book value compared to the remaining SBITA liability.

#### Government-wide Reporting Fund

If the SBITA had a historical cost/commencement amount of \$9,000 and accumulated amortization of \$3,000 (partially amortized). The remaining SBITA liability is \$4,000 (with \$2,000 being current). The result of the \$6,000 loss from disposing the SBITA asset is combined with the \$4,000 gain from removing the associated SBITA liability, resulted in a net loss of \$2,000 for this transaction.

**T-code 475R:** To reduce SBITA liability – Current.

DR GL 1282 SBITA Obligation – Current	2,000	
CR GL 2951 System Clearing GL		2,000

**T-code 475:** To adjust SBITA liability – Noncurrent.

DR GL 2951 System Clearing GL	2,000	
CR GL 1728 SBITA Obligation – Noncurrent		2,000

**T-code 573:** To remove accumulated amortization.

DR GL 0885 Amortization of SBITA	3,000	
CR GL 2951 System Clearing GL		3,000

**T-code 574:** To reduce asset value by the accumulated amortization.

DR GL 2951 System Clearing GL	3,000	
CR GL 0819 SBITA Asset		3,000

**T-code 537:** Eliminate excess asset value, record gain/(loss) using COBJ 2333.

DR GL 3200 GAAP Revenue Offset	6,000	
DR GL 3018 Net Investment in Capital Assets	6,000	
CR GL 0819 SBITA Asset		6,000
CR GL 3074 Change in Capital Assets		6,000

**T-code 462R:** Adjust SBITA liability (as necessary) using COBJ 2333.

DR GL 1728 SBITA Obligation – Noncurrent	4,000	
CR GL 3200 GAAP Revenue Offset		4,000

#### Enterprise Fund

The entries are similar to the government-wide entries described above.

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### Capital Asset and Accumulated Amortization and Depreciation GLs

The following table includes all possible asset GL accounts and their associated accumulated amortization and depreciation GL accounts. If an asset is going to be disposed the corresponding accumulated amortization/depreciation also needs to be disposed.

Asset GLs		Accumulated Amortization and Depreciation GLs	
GL Acct	GL Account Title	GL Acct	GL Account Title
0811	Works of Art & Historical Treas – No Depr	N/A	N/A
0812	Works of Art & Historical Treas – Depr	0876	Accum Depr – Art & Historical Treasures
0815	Equipment and Machinery	0869	Accum Depr – Equipment & Machinery
0816	Motor Vehicles	0872	Accum Depr – Motor Vehicles
0817	Data Processing Software	0868	Accum Amort – Data Proc Software
0818	Data Processing Hardware	0873	Accum Depr – DP Hardware
0819	Subscription-Based IT Asset	0895	Accum Amort – Subscription-Based IT Assets
0820	Other Intangible Assets (Amortizable)	0866	Accum Amort – Other Intangible Assets
0821	Leased Equip & Machinery	0886	Accum Amort – Leased Equip & Machinery
0822	Leased Motor Vehicles	0887	Accum Amort – Leased Motor Vehicles
0823	Leased Data Processing Hardware	0888	Accum Amort – Leased Data Proc Hardware
0824	Leased Tunnels & Bridges	0889	Accum Amort – Leased Tunnels & Bridges
0825	Leased Airports	0890	Accum Amort – Leased Airports
0826	Leased Docks, Dikes, & Dams	0891	Accum Amort – Leased Docks, Dikes, Dams
0827	Leased Land	0892	Accum Amort – Leased Land
0828	Leased Buildings	0893	Accum Amort – Leased Buildings
0829	Leased Other Assets	0894	Accum Amort – Leased Other Assets
0830	PPP Assets	0896	Accum Amort – PPP Assets
0839	Other Intangible Assets (Not Amort)	N/A	N/A
0840	State Highways	0880	Accum Depr – State Highways
0841	Other Roads	0885	Accum Depr – Other Roads
0842	Tunnels and Bridges	0881	Accum Depr – Tunnels and Bridges
0843	Airports	0882	Accum Depr – Airports
0844	Utility Systems	0883	Accum Depr – Utility Systems
0845	Docks, Dikes, and Dams	0884	Accum Depr – Docks, Dikes, and Dams
0848	Land Use Rights (Not Amort)	N/A	N/A
0849	Land Use Rights (Amortized)	0865	Accum Amort – Land Use Rights
0850	Land	N/A	N/A
0852	Buildings and Building Improvements	0875	Accum Depr – Buildings & Bldg Improvements
0856	Land Improvements	0867	Accum Depr – Land Improvements
0860	Construction in Progress – Highway System	N/A	N/A
0861	Construction in Progress	N/A	N/A
0862	Leasehold Improvements	0870	Accum Amort – Leasehold Improvements