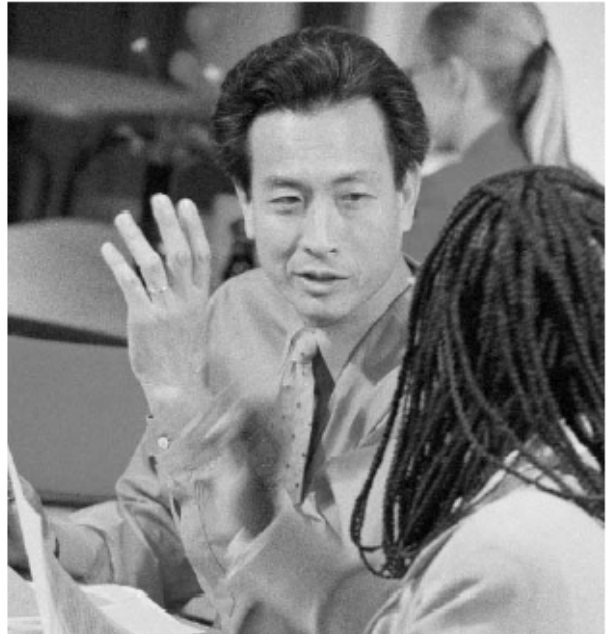


FAS 2004.1 Tax Update

What's New



Your Guide to New IRS Regulations and Product Features

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Installing the Update

To install the FAS 2004.1 Tax Update, you must currently be using version 2003.1 or later of FAS Asset Accounting, FAS FirstStep, or FAS Asset Accounting for SQL Server. You cannot install the patch on previous versions. You should install the update on each FAS client machine. **You do not need to install the update on the server unless a FAS client has also been installed on the server.**

After you follow the instructions below to install the update, you do **NOT** need to install the program from the installation CD.

To install the update:

1. Log on to SupportPlus Online.
2. Click the FAS SupportPlus Online link.
3. Click the Product & Documentation link.
4. Select your version of the FAS program, and then click the Get Product Update button.
5. Click the 2004.1 Tax Update link. The system displays the File Download dialog box.
6. Click the Save Button. The system displays the Save As dialog box.
7. Select 'Desktop' in the Save In field, and then click the Save button.
8. When the download is complete, click the Close button, and then double-click the shortcut on your desktop to begin the installation.

If you have unzipping software, the system prompts you to unzip the file. Follow the instructions provided by your software. If you do not have unzipping software, you can download free unzipping software at **www.winzip.com**.

9. Double-click the unzipped file (fas0401.exe) to launch the installation.
10. Click the Setup button to install the update. When the 2004.1 Tax Update has successfully replaced the necessary files, the system displays a confirmation message.
11. Click OK to close the message. The update process is complete.

If you are running multiple versions of FAS on a single computer, you install the update only once. The system updates every version of the FAS program that it finds on a machine, using the same base install path, at the same time. For questions or problems, contact FAS Customer Support at 1-800-331-8514.

Overview

The 2004.1 Tax Update contains changes to FAS Asset Accounting, FAS Asset Accounting for SQL Server, and FAS FirstStep. We have not made any changes to FAS Asset Inventory for this release.

Congress and the IRS have been keeping us busy over the last several years, and the 2004.1 tax release is not any different. This time, the IRS has issued several regulations: T.D. 9091 and T.D. 9069. These regulations require program changes since the last release of FAS (the 2003.1.1 release). They also require a change to the way you enter some assets. Therefore, the 2004.1 Tax Update includes the following enhancements and changes:

1. A new property type T for Light Trucks and Vans. Light trucks and vans are eligible for a higher depreciation limit than luxury automobiles (property type A).
2. A change in the way certain nonpersonal use vehicles should be entered in FAS.
3. Audit Advisor. This new feature helps you locate assets that may not comply with the following new and existing IRS regulations:
 - **Disposals in the Placed-in-Service Year:** A new IRS regulation states that the 168(k) Allowance cannot be taken on an asset that is placed in service and disposed in the same tax year.
 - **Transfers in the Placed-in-Service Year:** A new IRS regulation requires the allocation of the 168(k) Allowance between the original asset and the transferred asset when the asset was transferred in its placed-in-service year.
 - **MACRS Depreciation Methods:** Generally, all assets placed in service after December 31, 1986 must use a MACRS depreciation method.
 - **Light Trucks and Vans:** Light trucks and vans are eligible for higher depreciation limits than other luxury automobiles.

When you run Audit Advisor, the system displays a report that tells you if there are potential problems with your data. If it finds any assets with potential problems, the system creates a group of the assets that might not comply with each regulation. You can examine each asset in the group. Then you can decide whether to change the information for each asset.

4. The updated IRS Form 4562 – Depreciation and Amortization for 2003.
5. Compliance with the scheduled increase in the Section 179 limits and conformity with the luxury auto limits.
6. Updates to depreciation limitation calculations for vehicles claiming a 30% 168(k) Allowance and vehicles placed in service in a short year.

Property Type T

IRS rules place a limit on the annual recovery allowances (including any deductions under Code Section 179) for vehicles that qualify as light trucks or vans placed in service on or after January 1, 2003.

As a result of Treasury Decision 9069, the depreciation limits for light trucks and vans are higher than the limits on luxury automobiles (property type A).

To apply the higher depreciation limits, use new property type T when you enter the asset in the system. You can use property type T if the vehicle's gross weight is less than 6,000 pounds. If the vehicle's gross weight is 6,000 pounds or more, use property type P or Q.

The following table summarizes the depreciation limits for light trucks and vans placed in service after December 31, 2002 and before May 6, 2003:

Year 1: \$7,960 *
Year 2: \$5,400
Year 3: \$3,250
Year 4: \$1,975

* If you elect out of the 168(k) Allowance for the truck or van, the depreciation limitation is \$3,360 for the first year.

The following table summarizes the depreciation limits for light trucks and vans placed in service after May 5, 2003 and before January 1, 2004:

Year 1: \$11,010 *
Year 2: \$ 5,400
Year 3: \$ 3,250
Year 4: \$ 1,975

* If you elect out of the 168(k) Allowance for the truck or van, the depreciation limitation is \$3,360 for the first year.

Note: You cannot use property type T for assets placed in service before January 1, 2003. Also, you should not use property type T for any vehicle weighing over 6,000 lbs. Any vehicle weighing over 6,000 lbs is not subject to the luxury auto limits under Sec. 280F and should be entered into FAS using property type P or Q.

Nonpersonal Use Vehicles

Also included in Treasury Decision 9069 is an exclusion for certain types of vehicles that have been specially modified. Light trucks and vans, as well as other vehicles, may be excluded from the depreciation limits entirely if they qualify as nonpersonal use vehicles.

To qualify as a nonpersonal use vehicle, the vehicle must meet the following requirements:

- The vehicle was specially modified so it is not likely to be used more than minimally for personal purposes.
- The vehicle was placed in service on or after July 7, 2003.

IRS Reg. § 1.274-5T(k)(7) provides the following example of a vehicle that was modified so that it would not be used for personal purposes:

“A van that has only a front bench for seating, in which permanent shelving that fills most of the cargo area has been installed, that constantly carried merchandise or equipment, and that has been specially painted with advertising or the company’s name.”

Vehicles that are exempt from the depreciation limits also include those listed under (k)(2) of the same regulation. This list includes cranes, school buses, forklifts, and ambulances.

If the vehicle does qualify for this exclusion, use property type P when you enter the asset in the system.

Audit Advisor

Audit Advisor helps you locate assets that may not comply with IRS regulations. When you run Audit Advisor, the system displays a report indicating if any of your assets could be in non-compliance with the IRS regulations. If Audit Advisor finds potential problems with your data, the system creates a group of assets for your review. You can examine each asset in the group and decide if you need to make any changes in the asset data.

To run Audit Advisor

1. Select Depreciation/Audit Advisor from the menu bar. The system displays the Audit Advisor dialog box.

The Audit Advisor checks the data in your system on a yearly basis to ensure you are in compliance with some of the more complex tax requirements related to fixed assets. The system alerts you to areas in which there may be a problem. Follow the steps below to run the review.

Step 1: Select a Book
Select the book on which to run the review.

Tax Internal State AMT ACE Book 6 Book 7

Step 2: Enter a fiscal year end
Assets placed in service in the fiscal year

Step 3: Begin the Review
Select the Run Review button to begin the review process. The system lists potential problems with your data. In addition, the system creates review groups to help you easily locate assets that may need to be modified.

Run Review Cancel Help

2. Select the book that you want to review for tax compliance.
3. Enter the fiscal year end. Audit Advisor reviews only assets placed in service in the fiscal year that you enter.
4. Click the Run Review button. The system displays a report indicating whether your assets comply with IRS regulations.

Audit Advisor determines if your assets comply with the following IRS regulations:

1) Disposals in the Placed-in-Service Year

Treasury Decision 9091 clarified the treatment of disposals of 168(k) assets in their placed-in-service year. Any asset claiming a 168(k) Allowance cannot be disposed in its placed-in-service year. Previous versions of FAS allowed you to dispose of an asset using a “Plus 168(k)” method in its placed-in-service year. Although this is no longer allowed in FAS, the system will support any existing assets that have already been disposed. Note that this requirement is effective starting with the introduction of the 168(k) Allowance for assets placed in service on or after 9/11/2001.

You can use Audit Advisor to find any assets that use a “Plus 168(k)” depreciation method and that were disposed in the placed-in-service year. You can then decide if you want to change the depreciation method for any of these assets to a non-168(k) method to comply with the regulation.

If you choose to update these assets to a non-168(k) method, you can use the 168(k) Allowance Switch feature. When running the switch feature, be sure to choose the group created by Audit Advisor and select the Do Not Take the 168(k) Allowance option. The system will change the depreciation method to the appropriate non-168(k) method and recalculate the gain/loss for you.

Note: The 2004.1 Tax Update version of the program prevents you from entering a disposal date in the placed-in-service year for assets that take the 168(k) Allowance.

2) Transfers in the Placed-in-Service Year

Treasury Decision 9091 also requires the allocation of the 168(k) Allowance between the original and the transferred asset when the asset has been transferred in its placed-in-service year. Previous versions of FAS claim the entire 168(k) Allowance in the original asset. If you have existing assets that were transferred in their placed-in-service year, the system will continue to claim the 168(k) Allowance in the original asset unless you choose to update the transaction. It is only necessary to update transfer transactions occurring between separate legal entities in order to be in compliance with the new regulation. If the transfer occurred within the same legal entity (for example, a departmental transfer), it is not necessary to update the transaction to be in compliance, although it may be desirable for bookkeeping purposes.

You can use Audit Advisor to find assets that take the 168(k) Allowance and were transferred in their placed-in-service years.

If Audit Advisor does find such assets, you must decide whether you want to update the transaction to prorate the 168(k) Allowance or leave the transaction with the original asset claiming the entire 168(k) Allowance. To determine which assets have already been updated and which still need to be updated, follow these steps:

1. Calculate depreciation for the group of assets created by Audit Advisor. When you calculate depreciation, select the book and fiscal year-end that you entered in the Audit Advisor dialog box.
2. Run the Tax Expense report for the group of assets created by Audit Advisor. Select the book and fiscal year that you entered in the Audit Advisor dialog box.
3. Compare the 168(k) Allowance value on the report to the 168(k) Expense value. Any asset whose 168(k) Allowance value equals the 168(k) Expense needs to be updated to be in compliance with the new treasury decision.

To update the transaction to properly prorate the 168(k) Allowance between the original asset and the transferred asset, follow these steps:

1. Go to Detail View for each asset that you want to repair.
2. Print the asset information for the Transfer page for your reference.
3. Select Asset/Delete Last Transaction from the menu bar. The system deletes the last asset transaction for the asset.
4. Re-enter the transfer information. The system correctly allocates the 168(k) Allowance between the original asset and the transferred asset.
5. Click the Save button to save the asset information.

3) MACRS Methods

Generally, all assets placed in service after December 31, 1986 must use a MACRS (Modified Accelerated Cost Recovery System) depreciation method. Audit Advisor finds assets using non-MACRS depreciation methods that were placed in service in a year for which MACRS depreciation methods are required.

If Audit Advisor finds such assets, it creates a group to assist you in easily updating the assets if necessary. The group name can be found on the Validation Report.

You should review the depreciation methods for each asset in the group. If you determine that an asset is incorrectly using a non-MACRS depreciation method, then you need to change the depreciation method to a MACRS method (that is, MA, MR, AA, SB, MF, MT, AD, or MI).

Also, note that if you decide to change depreciation methods, you may be required to file a Form 3115 – Application for Change in Accounting Method.

4) Light Trucks and Vans

As previously mentioned, new IRS regulations allow increased depreciation limits for light trucks and vans. These new regulations apply to vehicles placed in service on or after January 1, 2003. You may have entered assets in the system using property type A for autos that now qualify for the higher depreciation limits.

If Audit Advisor finds any assets using property type A in the given year, it creates a group called “AA - Trucks&Vans - <book name>-<Year>”.

You should examine each asset in the group and determine if the asset qualifies for the higher limits. If it does, change the property type from A to T and re-depreciate the asset. It is important that when making this depreciation-critical change you do not copy the existing depreciation into the beginning fields.

Audit Advisor Sample Report

Audit Advisor

The system has completed a review of your data. The information displayed below indicates if any potential problems were detected in the data. If a potential problem was detected, the system created a group of assets to help you easily locate those assets and make any necessary changes.

Review of Fiscal Year End: 12/31/2003

Review 1 - 168(k) Disposals in PIS year

Result: **Exceptions Found**

Issue: Assets using a 168(k) method cannot be disposed in their placed-in-service year.

Resolution: For any asset using a 168(k) method that was palced in service and disposed in the same tax year, you must change the depreciation method to a non-168(k) method.

Group Created: AA-168(k) Disp-Tax-12/03

Review 2 - 168(k) Transfers in PIS year

Result: No Exceptions Found

Issue: New guidance released in September 2003 requires the 168(k) Allowance to be prorated between the transferor and transferee when a transfer occurs in the placed-in-service year. These rules are mandatory for tax years ending after 9/7/2003. Some of the assets previously entered into the system (prior to the 2004.1 Tax Update release) use a 168(k) method and are both placed in service and transferred in the same tax year and therefore may not have a

Group created
when exceptions
are found.

Updated and Enhanced Form 4562

The IRS Form 4562 – Depreciation and Amortization has been updated for the 2003 tax year.

To run the Form 4562

1. Select Reports/Tax Forms and Worksheets/4562 – Depreciation and Amortization from the menu bar. The system displays the 4562 – Depreciation and Amortization Report Definition dialog box.
2. Complete the fields on the dialog box, and then click the Execute button.

Updated Limits

The maximum Section 179 limit has been increased to \$102,000 for assets placed in service in tax years beginning in 2004. In addition, the maximum cost of Sec 179 property that can be placed in service in the year before the phase-out begins has been increased to \$110,000 for tax years beginning in 2004.

Also, the luxury auto limits for 2004 have decreased. The depreciation limits in effect for automobiles placed in service in 2004 are as follows:

Year 1: \$10,610 *
Year 2: \$ 4,800
Year 3: \$ 2,850
Year 4: \$ 1,675

* If you elect out of the 168(k) Allowance for the automobile, the depreciation limit is \$2,960 for the first year.

The depreciation limits in effect for light trucks and vans assets placed in service in 2004 are as follows:

Year 1: \$10,910 *
Year 2: \$ 5,300
Year 3: \$ 3,150
Year 4: \$ 1,875

* If you elect out of the 168(k) Allowance for the light truck or van, the depreciation limit is \$3,260 for the first year.

Vehicle Calculation Updates

A new IRS regulation (Rev Proc 2003-75) clarifies vehicle limits for assets placed in service after May 5, 2003. Vehicles that take a 168(k) Allowance of either 30% or 50% are eligible for the higher depreciation limit of \$10,710 for automobiles and \$11,010 for light trucks and vans in 2003. The previous version of the program limited depreciation to \$7,660 for automobiles placed in service after May 5, 2003 if they elected to take a 168(k) Allowance of 30%. This change will automatically occur the next time depreciation is run for automobiles.

To apply the higher limit for these vehicles, follow these steps:

1. Install the 2004.1 tax update.
2. Calculate depreciation for the vehicle.

The system applies the updated depreciation limit of \$10,710 for an automobile that was placed in service after May 5, 2003 and before January 1, 2004 and that takes a 168(k) Allowance of either 30% or 50%.

Note: If you have placed an automobile in service after May 5, 2003 claiming a 30% 168(k) Allowance and subsequently disposed of the asset, then you will need to undo the disposal and re-enter the disposal information. The system can then properly recalculate the gain/loss using the new higher depreciation limit.

Short Year Calculations

Another clarification made during the tax year was how to apply the luxury automobile limits in a short year. Code Section 280F requires that the luxury auto limit be prorated in a short year; however, you are not required to prorate the 168(k) Allowance during a short year. Thus when determining the limit on depreciation for automobiles, light trucks, or vans, the system has been updated to use the following formula:

$\{(\text{Annual Limit} \times \text{Short Year Fraction}) + \$7,650^*\} \times \text{Business Use}$

* Prior to May 6, 2003, this amount is \$4,600.

The change in short year calculations is automatic and will occur the next time depreciation is run for any vehicle claiming the 168(k) Allowance in a short year.