

## Section 250 Compliance: Creating a New ADS Depreciation Book

### Issue

- How do I set up a new book using ADS straight-line depreciation methods and lives for my existing assets to meet the Section 250 requirements?
- How do I determine QBAI assets and their ADS lives?

See **Additional Information** below for more details on the origination and purpose of Section 250.

### Resolution

Create an ADS book for your assets to meet the requirements of Section 250 and to calculate the depreciation for eligible assets for the QBAI portion of FDII and GILTI (learn more in **Additional Information** below). The best approach is to use the Copy Book and Bulk Edit features in Sage Fixed Assets. The Sage Professional Services team is also available if you prefer for them to establish the ADS book or if you have a particularly complex situation. Contact your Account Manager for more information.

The following steps assume: 1) you are using the MACRS GDS (general depreciation system) in the Tax book, 2) the ADS Life field for each asset is correct (see the **Depreciation Lives and Methods Conversion** section below), and 3) a book is available for use as the new ADS book.

1. Use **Copy Book** to copy the tax book data to the chosen ADS book (Hint: In Edit Company, you can change the display name, called the Book Title, of the Custom 1 or Custom 2 book to be more meaningful, such as **ADS**.)
  - a. In Asset List view, select Asset > Copy Book.
  - b. Select the Tax book for the Source Book.
  - c. Select the chosen book as the Destination Book.
  - d. Select Overwrite Existing Data, if not already checked.
  - e. Select OK.

Note: In Sage Fixed Assets versions 2019.1.2 and earlier, Copy Book does not allow copying to the AMT or ACE books.

2. Use **Group Manager** to create a dynamic group of assets that qualifies for the Section 250 calculation. This group should exclude non-qualifying assets, such as intangible assets.
  - a. Check the regulations (or get tax advice from a professional) to be sure only qualified assets are included in the group.
  - b. Depending on the nature and attributes of your assets, it may be as simple as creating a group of active assets whose property type is NOT Z (amortizable) to exclude intangible assets.
  - c. If needed, use a general information field to identify specific assets that are not qualified and use that field in the Group criteria to filter out such assets.

3. Depreciate the ADS book through the desired period of your first ADS calculation, for example, 12/31/2018, using the group of assets created in step 2.
  - a. At this point, the depreciation values should be the same as those in the Tax book when calculated to the same period and for the same group.
4. Use **Bulk Edit** (Depreciation > Bulk Edit) to change the existing GDS Depreciation Method and Estimated Life to their new ADS Depreciation Method and Life.

Note: Make sure you have made or make a backup of the company you are using since there is not an **Undo** feature for Bulk Edit.

Panel 1. Check the **I have a current backup.** box, click Next

Panel 2. Select the group of assets created in step 2 (the Section 250 assets).

Panel 2. Select the new ADS book, click Next.

Panel 3. This step is an iterative process. Enter the criteria for each set of assets that need to change from a specific GDS Method/Life to a specific ADS Method/Life. For example, for all assets that are currently MF200, 7-years and need to be AD, 10 years, enter the following:

- a. Select Depreciation Method, enter From: **MF200** To: **AD**.
- b. Select Estimated Life, enter From: **07 00** To: **10 00**.
- c. Click Next.

Note: For assets using a bonus method (i.e. office furniture), run a separate Bulk Edit by selecting Depreciation Method from **MA200** to **AA** and Est Life From: **07 00** To: **10 00**.

Panel 4. Select the Placed-in-Service Date as the effective date, do not select **Retain Begin Info**, deselect **Only change assets with a Placed-in-Service Date of:**, click Next.

Panel 5. Review the summary above the Validate button to ensure that the correct Asset group, Books, and Changes have been chosen for the Bulk Edit transaction.

Panel 5. Select Validate to review the **Bulk Edit Validation Report** to ensure all assets either appear as **Valid** or with a **Warning** that is acceptable. If the company has transferred assets, see the **Transferred Assets** section below.

Panel 5. Click **Execute** to complete the conversion process.

5. As noted, this is an iterative process. Follow the same steps above for each set of assets that need to change from a specific GDS Method/Life to a specific ADS Method/Life. Refer to the **Depreciation Lives and Methods Conversion** section below to determine the appropriate ADS Life and or ADS Depreciation Method.
6. Calculate depreciation and run the Net Book Value report for each quarter of the year since quarterly calculations are required per the Section 250 requirements. Save these reports to use as a reference to calculate the average investment for each tax year.

## Depreciation Lives and Methods Conversion

While most asset classes have standard ADS lives in relation to GDS lives, variations often exist in the farming, real estate, manufacturing and transportation industries for specialized assets. See the table below for the common GDS/ADS lives. For more examples, go to the IRS Table link at the bottom of any Asset Detail page in Sage Fixed Assets. For the complete list of asset lives, go to [IRS Publication 946](#), Appendix B.

**Regarding software:** it is our position that off-the-shelf software that is depreciable per IRS Publication 946 is an eligible asset for QBAI purposes. Off-the-shelf software is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified. Customized software and databases not incidental to the software (i.e. software that does not meet the **off-the-shelf** definition) is an intangible asset and does not qualify as a QBAI asset. Since off-the-shelf software is depreciated on a straight-line basis and the GDS life = ADS life, no conversion is necessary.

**Table 1 - Common GDS and ADS Lives**

Description	GDS Life	ADS Life
Off-the-shelf computer software	3	3
Computer equipment & peripherals	5	5
Adding machines, calculators, copiers	5	6
Autos, light trucks and vans	5	5
Buses	5	9
Office furniture, phones, construction equipment	7	10
Airplanes, commercial	7	12
Fences, land improvements	15	20
Residential rental real estate (placed in service before 2018)	27.5	40
Residential rental real estate (placed in service after 2017)	27.5	30
Commercial real estate	39	40

## Special Cases for GDS and ADS Lives

**One GDS Life => many ADS lives.** 10 years is the common ADS life for many 7-year GDS life assets, however, many exceptions exist, An example of this is a commercial airplane which has an ADS life of 12 years, as can be seen in Table 1 above. For assets with the same GDS life, but different ADS lives use the Asset Group feature to create more refined groups as needed and execute the Bulk Edit changes separately for each separate ADS Life.

**GDS Life = ADS Life.** On Bulk Edit, Panel 3 it's still necessary to enter the Estimated Life. For example, for automobiles using a bonus method the selections would be Depreciation Method From: **MA200** To: **AA** and Estimated Life From: **05 00** To: **05 00**. Since the GDS and ADS life are both 5 years – the From: life of **05 00** is entered to filter down to assets that are MA200 AND 5 years.

## GDS to ADS Method Conversion

The Table below shows the ADS method that should be selected when converting a GDS Tax book to an ADS book.

**Table 2 – Sage Fixed Assets GDS to ADS Equivalents**

GDS Method	ADS Method
MA100	AA
MA150	AA
MA200	AA
MF100	AD
MF150	AD
MF200	AD
MT100	AD
MT150	AD
MT200	AD

## Additional Information

### Code Section 250 Background

Code Section 250 – Foreign-derived Intangible Income (FDII) and Global Intangible Low-taxed Income (GILTI) came into law as part of the Tax Cuts and Jobs Act of 2017. It is applicable to tax returns filed for tax years beginning 2018 and later. The legislative intent is to neutralize the tax choice of locating intangibles and the related income within the US or in a CFC (Controlled Foreign Corporation). In addition, the FDII and GILTI deductions help keep US corporations competitive by providing a deduction for corporations which have made real foreign investments while also earning intangible income overseas.

While FDII and GILTI are the ultimate end results, the fixed assets related calculations are part of a sub-calculation that factor into these higher-level results. Under Section 250, fixed assets are referred to as Qualified Business Asset Investment (QBAI) and part of the calculation to determine Deemed Intangible Income (DII). The full calculation is:  $DII = DEI - [QBAI \times 10\%]$ . DII is the sub-calculation that flows from Part II, Line 3 of the Form 8993 to Part IV Line of the Form 8993 “Determining FDII and/or GILTI Deduction”.

QBAI is specifically defined in IRC Code Section 951(a). To briefly summarize QBAI: only tangible depreciable assets are included, internal transfers (outright transfers or leases to related companies) are generally treated as if the transferor still owns the property for QBAI purposes, and QBAI assets must be depreciated using ADS straight line per IRC 167.

### Quick Note on Transferred Assets

In Sage Fixed Assets, internally transferred assets behave differently with Bulk Edit than most other assets. Assets involved in a transfer (parent or child) cannot be depreciated back to the Placed-in-Service Date, only back to the Beginning Date (i.e. the date of the transfer). For Whole Transfers, the

parent transferred asset becomes Inactive and cannot be changed with Bulk Edit, while the child asset can only be depreciated or edited going forward from the Beginning Date. For Partial Transfers, both the parent and child can only be depreciated or edited going forward from the Beginning Date. Given the complexity of transfers, it is important to understand that the IRS rules surrounding transfers are primarily anti-abuse provisions (i.e. transferring assets to manipulate the Section 250 calculations and taxable income). You may want to consult your tax professional to determine the best options and discuss whether or not the total of net transfers are significant to your organization.