

SUPPLEMENT:  
PARTNERSHIPS  
(1065)

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**DrakeTax**<sup>®</sup>



# **Drake Tax User's Manual**

**Tax Year 2019**

**Supplement: Partnerships  
(1065)**

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# Table of Contents

What’s New in Drake Tax for Partnership Returns . . . . .	9
Forms and Worksheets for “Pass-Through” Packages . . . . .	10
Completing a 1065 Return in Drake Tax . . . . .	12
Updating a Prior-Year Return in Drake Tax . . . . .	12
Header Information . . . . .	12
Name and Address . . . . .	12
Tax Year . . . . .	13
Boxes A through J . . . . .	14
Income and Deductions . . . . .	14
Gross Receipts . . . . .	15
Cost of Goods Sold (Form 1125-A) . . . . .	15
Ordinary Income (Loss) . . . . .	16
Net Farm Profit (Loss) . . . . .	16
Net Gain (Loss) . . . . .	16
Other Income (Loss) . . . . .	16
Compensation and Wages . . . . .	17
Guaranteed Payments and Partner Health Insurance . . . . .	17
Repairs and Maintenance . . . . .	18
Bad Debts . . . . .	18
Rents . . . . .	18
Taxes and Licenses . . . . .	18
Interest . . . . .	19
Depreciation . . . . .	20
Depletion . . . . .	22
Retirement Plans . . . . .	22
Employee Benefit Plans . . . . .	22
Other Deductions . . . . .	23
Tax and Payments . . . . .	23
Filing an Extension . . . . .	25
Signing the Return . . . . .	25
Amending a Return . . . . .	26
TEFRA and Filing Eligibility . . . . .	27
Additional Information . . . . .	27
Schedules B, B-1, and B-2 . . . . .	27
Schedule B-1 Information . . . . .	28
Partnership Representative . . . . .	29
Reporting Limitation on Business Interest Expense . . . . .	30
Electing Out of Centralized Partnership Audit Regime . . . . .	30
Form 8996 and 8997, Qualified Opportunity Funds . . . . .	31

Form 8832, Entity Classification Election . . . . .	31
State-Specific Information . . . . .	32
Other Information and Overrides . . . . .	34
Schedule K (Partners' Distributive Share Items) . . . . .	34
Passing Through QBI Information . . . . .	37
QBI Statements and Worksheets . . . . .	38
Denoting Specified Service Trades or Businesses . . . . .	39
Reporting Section 199A Items . . . . .	39
Safe Harbor for Rental Properties . . . . .	40
Aggregation and PBANs . . . . .	41
Aggregation, BANs, and PBANs . . . . .	42
Oil and Gas Depletion Worksheet . . . . .	45
Multiple Foreign Transactions . . . . .	45
Business Activities Statement . . . . .	45
Schedule K-1 for 1065 (Partner Information). . . . .	46
Other Partner Information . . . . .	47
Sorting and Viewing Schedules K-1 . . . . .	48
Grid Data Entry for Screen K1 . . . . .	49
IRS K-1 Codes . . . . .	49
Returns with Numerous Partners . . . . .	50
Partner Overrides . . . . .	50
Foreign Addresses . . . . .	50
Ownership Changes . . . . .	51
K-1 Export . . . . .	51
Supplemental Information . . . . .	52
Item M Question . . . . .	53
Partner's Adjusted Basis Worksheet . . . . .	54
Domestic Production Activities Deduction . . . . .	55
K-1 Cover Letters . . . . .	55
Schedule L (Balance Sheets Per Books). . . . .	56
Flow of Information . . . . .	58
Force-Printing Final End-of-Year Totals . . . . .	58
The SCH2 Screen . . . . .	58
Autobalance . . . . .	60
Schedule M-2 (Analysis of Partners' Capital Accounts) . . . . .	60
Schedules M-1, M-3 (Reconciliation of Income). . . . .	60
Schedule M-1 . . . . .	60
Schedule M-3 . . . . .	62
Force-Printing Schedule M-3 . . . . .	63
Rental Activities . . . . .	64
Line 14, Depreciation . . . . .	64
Line 15, Other Expenses . . . . .	65
Qualified Business Income on Screen 8825 . . . . .	66
Viewing Rental Activity Information . . . . .	66

Self-Employment Income ..... 67  
Royalties Worksheet ..... 67  
Form 8997, Initial and Annual Statement of QOF Investments ..... 67  
QOF Investments ..... 68  
Credits and Adjustments ..... 68  
Extender Tax Credits Revived ..... 68  
Employer Credit for Paid Family Medical Leave ..... 69  
Elections ..... 69  
Making an Election in Drake Tax ..... 69  
Election Statements ..... 70  
Safe Harbor Elections ..... 70  
Making Changes on the Fly ..... 71  
Suppressing/Forcing Documents ..... 71  
Overriding Other Setup Options ..... 73  
Optional (but Recommended) Security Information ..... 74  
Electronic Filing ..... 74  
Additional Return Types ..... 74  
Form 5471 ..... 74  
GILTI Income ..... 74  
Specified Foreign Corporations and Form 965 ..... 75  
E-FILE FINCEN FORM 114 ..... 75  
Electing a 52-53-Week Year (Initial Return) ..... 76  
Inactive Returns ..... 77  
Common Reject Codes ..... 77  
Binary Attachments ..... 78  
The PDF Attachment Process ..... 78  
Importing Trial Balance Information ..... 80  
Preparing to Use Trial Balance Import ..... 81  
Preparing Financial Data for Import ..... 82  
Saving a File ..... 86  
Importing Data into a Return ..... 86  
Special Conditions ..... 87  
Other Program Imports ..... 90  
Form 3115, Application for Change in Accounting Method ..... 93  
Accessing Screens for Changing Accounting Method ..... 93  
EF “Notice” and EF “ACK” Pages ..... 94

**Appendix A: Trial Balance Import .....A-1**

**Index..... xcix**

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# Partnerships (1065)

*THE BASICS OF DATA ENTRY FOR A PARTNERSHIP (1065) RETURN ARE THE SAME AS FOR THE 1040. NAVIGATE THROUGH DATA ENTRY, FIELD- AND SCREEN-LEVEL HELP, AND KEYBOARD SHORTCUTS JUST AS YOU DO IN THE 1040 PROGRAM. SEE THE 2019 DRAKE TAX USER'S MANUAL FOR THE BASICS OF USING THE PROGRAM. (THE MANUAL IS AVAILABLE ON THE INSTALLATION CD AND ON THE DRAKE SUPPORT WEBSITE: SUPPORT.DRAKESOFTWARE.COM > TRAINING TOOLS > MANUALS.)*

## What's New in Drake Tax for Partnership Returns

Drake Tax programs its tax software according to the latest IRS rules and regulations. The 2019 program reflects all changes to credits and deductions, including discontinuations. For details on new regulations for 2019, see the IRS instructions for Form 1065.

### IMPORTANT

Be sure to review the *2019 Drake Tax User's Manual* – available from the *Support.DrakeSoftware.com* website – for details on the changes to the tax program and practice management tools.

The following changes have been made to the 1065 package in Drake Tax for the 2019 tax year:

- The program now uses “tax basis” by default as the capital account method, reflected in section “L Partner’s Capital Account Analysis,” of Schedule K-1. Preparers can use the “Item L on Schedule K-1 (Partner's capital account analysis)” section of the **PRNT** screen, to change the capital account method. The check boxes for “Tax basis,” “GAAP,” “Section 704(b)book,” and “Other,” have been deleted from item “L.”

- The **MISC** screen, added to the **Miscellaneous** tab of the **Data Entry Menu** of the business packages, includes fields to help preparers keep up with the production schedule of a return: **Date promised**, **Date picked up**, how much the client was charged last year (the **2018 prep fees** field), and a check box for indicating clients who did not pay their bill last year. This is preparer information only and has no affect on the return.
- The **Disaster Designation** field on the **MISC** screen is for entering the name of a federally designated disaster for those business entities that incurred disaster losses and that are subject to federal disaster rules. An entry in this field is printed across the top of the return but does not otherwise affect the return. The field is limited to 75 characters (including spaces).
- An option to **Update Misc Codes on Screen 1**, available during the update process (**Last Year Data > Update Client 2018 to 2019**) was added to the federal business packages. For more information on using these code fields, see “Miscellaneous Codes” in Chapter 5 of *2019 Drake Tax User’s Manual*.

## Forms and Worksheets for “Pass-Through” Packages

Here are some of the changes that affect the Partnership package for the 2019 tax season.

**Form 8997** Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments, along with the corresponding data entry screens, has been added to the 1065 package in Drake Tax. An investor in a qualified opportunity fund (QOF) uses Form 8997 to inform the IRS of the QOF investments and deferred gains held at the beginning and end of the current tax year.

For more, see “Form 8997, Initial and Annual Statement of QOF Investments” on page 67.

**Form 8996** A partnership uses Form 8996, Qualified Opportunity Fund, to certify that it is organized to invest in Qualified Opportunity Zone (QOZ) property.

For more, see “QOF Investments” on page 68.

**New QBI Statements** Drake Tax includes new worksheets with 1065 returns that include Qualified Business Income:

- The “Statement A – QBI Pass-through Entity Reporting” worksheet that includes Section 199A items, will be attached to and filed with Schedules K-1 this year. The “Qualified Business Income Information” worksheet – a summary of Statement A – will also be generated with the return. (This second worksheet will *not* be filed and is intended for the entity’s records.)
- “Statement B – QBI Pass-through Entity Aggregation Elections,” will be attached to and filed with Schedule K-1, and a “Qualified Business Income Aggregation” worksheet – a summary of Statement B – will be generated for entity’s records.
- “Statement C – QBI Pass-through Entity Reporting,” will be attached to and filed with Schedule K-1, for patrons of specified agricultural and horticultural cooperatives.

See IRS instructions for more on these statements.

## Schedule K-1

Following are changes made to Schedule K-1 and to Drake Tax's 1065 package.

A new section was added to item "H" of Schedule K-1. There is now a line for the TIN and the name of the disregarded entity in the event the disregarded entity owned an interest in the partnership. This information is entered on the **K1** screen.

## NOTE

Notice 2019-66, released December 9, 2019, provides that partnerships are *not* required to report partner capital accounts in item "L" on the tax basis but must be calculated as provided in the 2018 Schedule K-1 instructions. Tax basis reporting will be effective for partnership taxable years that begin on or after January 1, 2020.

The reporting method of the capital account will now be printed in item "L" of the K-1. If you are not using the tax basis reporting method, open screen **PRNT** in Drake Tax (available from the **Miscellaneous** tab of the **Data Entry Menu**, and from the **Item L** section, choose the method you are using.

- Item "N" for "Partner's Share of Net Unrecognized 704(c) Gain or (Loss)," beginning and ending amounts, were added to Part II of Schedule K-1.
- Part III, line 4, has been divided in three lines:
  - 4a, "Guaranteed payments for services"
  - 4b, "Guaranteed payments for capital"
  - 4c, "Total guaranteed payments"

## NOTE

The amount of line 4b, "Guaranteed payments for capital," flows to the partners' Schedule K-1 and is reported on the partner's individual 1040 return, on Schedule E, line 28, column "K."

In Drake Tax, guaranteed payments to partners is entered on screen **DED**, with adjustment fields on screens **K**, **RENT**, and **8825**.

- Part III, line 20, codes for Qualified Business Income (QBI) items have been changed to a single code "Z," which refers to the attached QBI statement.
- Lines 21 and 22 were recently added to Part III by the IRS, but for 2019, these questions do not have to be answered and the check boxes are not active in the 1065 package.

## Schedule B

Following are some changes to Schedule B:

- Line 25, "Designation of Partnership Representative," on page 3 of Form 1065, no longer requires a U.S. taxpayer identification number.
- Line 27 is for the number of foreign partners subject to section 864(c)(8)
- Line 28 is for any transfers between the partnership and its partners subject to the disclosure requirements of Regulations section 1.707-8

In Drake Tax, data for these lines is entered on screen **B** ("**Schedule B. cont**" tab), which is available from the **General** tab of the **Data Entry Menu**.

See “Additional Information” on page 27 for details on completing Schedule B.

## Completing a 1065 Return in Drake Tax

The basics of data entry for a partnership (1065) return are the same as for the 1040. See the *2019 Drake Tax User's Manual* for the basics of using the program, or log in to *DrakeETC.com* to view online tutorials and webinars designed to teach new users all aspects of data entry in Drake Tax.

## Updating a Prior-Year Return in Drake Tax

If you prepared a tax return in Drake Tax last year, you can update the return for the current year in either of three ways:

- As a *single* return (updated one at a time) using **Last Year Data > Update Clients 2018 to 2019** (recommended)
- When you open the return for the first time in the 2019 program and are prompted to update it
- With *all other* returns in the program using **Last Year Data > Update Clients 2018 to 2019** (*not recommended*)

When you update a 1065 return that was marked as “final” the previous year, the program informs you that the return was marked final before prompting you to proceed.

For more details on updating prior-year returns, see “Updating Client Files” in Chapter 4 of the *2019 Drake Tax User's Manual*.

## Header Information

Screen **1** contains fields for the general information that is printed in the top section of page 1 of Form 1065.

## Name and Address

Use screen **1** to complete the partnership name and address section of Form 1065. For state purposes only, if the partnership has an alternate address (such as a P.O. box), you can enter it in the **Address Line 2** field at the bottom of screen **2**.

Screen Code: 2

Access screen **2** from the **States Info** link on screen **1** or, from the **States** tab of the **Data Entry Menu**, or by entering 2 in the selector field and pressing ENTER.

### “Doing Business As”

Whatever is typed into the **DBA** field of screen **1** will be printed below the legal name of the partnership in the “Name” section of the main form (and on certain other forms, such as Schedule K-1).

Use of the **DBA** field is optional and data entered there is not required by the IRS. It is provided in the program for the return preparer's convenience.

The **DBA** can also serve as a “continuation” line for entity names that are too long to fit into the legal name field. Be aware, however, that not all federal forms accept data

from a continuation (or DBA) line. For those forms, only the data entered in the legal name field is used.

**NOTE** Not all states recognize the use of a DBA name. Those state packages ignore data entered in the **DBA** field.

## Tax Year

The program uses the calendar year as the default period for all partnership returns. No date entries are required on screen **1** for a December 31 tax year-end.

**NOTE** The program adjusts calculations for depreciation and for gains and losses on sales of assets based on the entity's tax year.

### Fiscal and Calendar Years

If the partnership uses a fiscal year (where the year begins in the current calendar year and ends in the next), specify the beginning and ending dates in the **If not a calendar year** section of screen **1**.

### 52-53-Week Tax Year

For information on electing a 52-53-week tax year, see “Electing a 52-53-Week Year (Initial Return)” on page 76.

### Short-Year Returns

A partnership may have a short-year return if changing accounting periods with IRS approval (Form 3115) or if this is its first or last year in business and the tax year is not a full year.

Screen Code:  
**YEAR**

Short-year return election information and 52-53-week tax year information is entered on the **Year** screen, available on the **Miscellaneous** tab of the **Data Entry Menu** or from a **Year** link on screen **1**.

To enter short-year information:

1. Enter short-year dates on screen **1** in the **Fiscal year beginning** and **Fiscal year ending** fields, even if the firm uses the calendar year for full-year returns. (These dates will appear on the top of the federal form.)
2. Click the **Year** link (figure at right) to open the **Year** screen. On the **Year** screen, make your short-year selection from the **Other short-year reason** drop list. Type an explanation in the **Explanation** text box. (Your explanation will be displayed at the top of the first page of the tax return.)
3. If you selected “General Explanation” from the **Other short-year reason** drop list, type details on the reasons for filing a short-year return in the **Explanation** text box.

If not a calendar year:	
Fiscal year beginning.....	06-30-2019
Fiscal year ending.....	12-31-2020
<input type="checkbox"/> 52-53-week tax year	<a href="#">Year</a>

For information on making elections through the **ELEC** screen, see “Elections” on page 69.

## NOTES

- For more extensive details on entering short-year return information into Drake Tax, click inside the **Explanation** text pane of the **YEAR** screen and press F1 to see the help.
- The program may not correctly calculate depreciation, gains, or losses for a short-year return. Depreciation for a short-year return can be manually entered on screen **4562** or screens **6, 7, 8, and 9**.
- For more information on short-year returns, see IRS Pub 4163.

## Boxes A through J

Enter most information for boxes A through J (top of Form 1065) on screen **1**. Note that boxes D (Employer identification number), F (Total assets), I (Number of Schedules K-1), and J (Schedule C and M-3 attached) are completed automatically based on information entered elsewhere in the program. Other boxes are:

- Box A — Principal business activity
- Box B — Principal product or service
- Box C — Business code number (Press CTRL+SHIFT+S to search activity codes)
- Box E — Date business started
- Item G — Initial, final, name change, address change, or amended return
- Item H — Accounting method (Select **Cash**, **Accrual**, or **Other** on screen **1**; if **Other**, enter a description of the method used.)
- *New for 2019:* Item K was added to screen **1** and to page 1 of Form 1065:
  - Aggregated activities for section 465 at-risk purposes (Mark this box if any activities covered by the at-risk rules can be treated as a single activity. For more information, click in the box and press F1 or see Pub. 925.)
  - Grouped activities for section 469 passive activity purposes (Mark this box if any activities covered by the grouping passive activities can be treated as a single activity.) For more information, click in the box and press F1 or see the IRS instructions.

In Drake Tax, the item “K” check boxes are available on screen **1**.

## Income and Deductions

Enter income and deductions on the **INC (Income)** and **DED (Deductions)** screens. **INC** screen amounts flow to Form 1065, page 1, lines 1a to 7. (Also see “Other Income (Loss)” on page 16.) **DED** screen amounts flow to Form 1065, page 1, lines 9 through 20.

“Other income” and “Other deductions” data is shown on attached statement worksheets in View/Print mode of the return.

**NOTE** Screen **DED** has one field for any deductible entertainment expenses and one for nondeductible entertainment expenses. Meals are still 50% deductible.

### Gross Receipts

Enter gross receipts or sales and returns and allowances on the **INC** screen.

**NOTE** The IRS does not require a detail worksheet (CTRL+W) for gross receipts; therefore, if you are using the trial balance import feature, do not include a detail worksheet for this line—or for any other line that does not require a detail worksheet.

### Cost of Goods Sold (Form 1125-A)

For cost of goods sold entries, complete screen **A** (Form 1125-A, Cost of Goods Sold). Click the **1125-A** link on screen **INC**, or select **A** from the **Data Entry Menu**.

**NOTE** On screen **A**, items 9a through 9f are direct-entry fields and follow the format of IRS Form 1125-A. For more information on completing these fields, click in any field and press F1 or consult the IRS instructions.

**Inventory** Inventory amounts entered on lines 1 and 7 of screen **A** automatically flow to Schedule L, line 3, “Inventories.” Note that the “Inventories” lines on screen **L (Schedule L - Balance Sheet - Assets)** are override fields; entries there override inventory data from screen **A**.

**Line 5, Other Costs** Line 5 of Form 1125-A is designated for any applicable costs not entered on the previous lines. In Drake Tax, two fields on screen **A** are provided for line 5: one for other costs including depreciation and one for other costs excluding depreciation. (See figure below.)

4	Additional section 263A costs.....
5	Other costs - depreciation.....
5	Other costs - excluding depreciation.....
7	Inventory at end of year.....

In the **Other costs - depreciation** field, enter any depreciation that relates to the cost of goods sold (unless the amount is flowing from the **4562 Detail** screen with **COGS** selected from the **For** drop list).

Note that this field on screen **A** is an override field; an entry here overrides the calculations from the **4562** screen and automatically adjusts the total depreciation that flows to page 1 of Form 1065. Make an entry in the **Other costs - excluding depreciation** field to open a detail worksheet (CTRL+W). Enter a description and an amount

for the items. The depreciation amount is included on the statement for other costs and should not be included in the **Other Costs** detail worksheet.

**NOTE** Line 16b on the **DED** screen is an adjustment field for depreciation from Form 4562 not entered on screen **A**.

### Importing Trial Balance to Sch A

If using the trial balance import feature (see “Importing Trial Balance Information” on page 80), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* in data entry of Drake Tax. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly. For more on depreciation and trial balance import, see “Depreciation” on page 88.

## Ordinary Income (Loss)

Ordinary income or loss from other partnerships, estates, and trusts (line 4 of Form 1065) flows from either screen **K1P** (Schedule K-1 from another partnership) or screen **K1F** (Schedule K-1 from a fiduciary).

## Net Farm Profit (Loss)

Screen Code: **F**

The partnership’s net farm profit or loss (line 5 of Form 1065) flows from information entered on screen **F (Farm Income and Expense)**. Farm profit or loss from other partnerships, estates, or trusts appears on line 4 of the return. To enter this information from the **INC** screen, click the links on line 4 to screen **K1P** or screen **K1F**. Enter the farm profit or loss from other partnerships, estates, or trusts on line 1 of screen **K1P** or line 6 of screen **K1F**. The **K1P** and **K1F** links are also on the **Other Forms** tab of the **Data Entry Menu**.

For information on farming partnerships with a corporation partner, see Pub. 225, *Farmer’s Tax Guide*.

## Net Gain (Loss)

The amount on line 6 (“Net gain (loss) from Form 4797, Part II, line 17”) of Form 1065 flows from Form 4797. Amounts can also flow from screen **4562**, but only if that screen shows assets sold and property type.)

## Other Income (Loss)

Use the **INC** screen to enter amounts for the “Other income” line of the main form. Specific **INC** screen entries are displayed on attached statements in View/Print mode of the return.

Amounts from the following screens also flow to line 7:

- **Screen 6478** — Form 6478, Biofuel Producer Credit
- **Screen 8864** — Form 8864, Biodiesel Fuels and Low Sulfur Diesel Fuel Production Credits



Additional fields on the **INC** screen include:

- Interest income on receivables
- Recoveries of bad debts deducted in earlier years
- Section 481 adjustments
- State tax refund (cash basis)
- Taxable income from insurance proceeds

Enter additional sources of income not listed above in the **Other income (itemize)** field. Begin typing in that field and a detail worksheet (CTRL+W) is opened with fields for descriptions and amounts.

Enter other income (loss) from a partnership, estate, or trust on the **KIP** or **KIF** screen. (Click the links on line 4 of the **INC** screen.)

## Compensation and Wages

Use line 9 of the **DED** screen to enter wages and salaries paid. Do not include guaranteed payments to partners or salaries or wages reported elsewhere in the return, such as the amounts included in COGS, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement. (Drake Tax automatically adjusts salary and wages for employment credits.)

## Guaranteed Payments and Partner Health Insurance

Use the **DED** and **K** screens to report guaranteed payments to partners and partner health insurance. Note that guaranteed payments and health insurance are entered as separate amounts.

### Guaranteed Payments

To report guaranteed payments to partners:

- Enter *total* guaranteed payments on the **DED** screen, line 10.
- An entry on line 4a and 4b of screen **K (Income/Loss)** tab) adjusts the amounts (adds to or subtracts from) entered on the **DED** screen.
- To allocate the total guaranteed payments among the partners, click the **SA** link to the right of the amount field on lines 4a and 4b of screen **K (Income/Loss)** tab. (For details on using the **SA** screen, see “Special Allocations” on page 35.)

Guaranteed payments should include any payments (or credits) to a partner for services rendered. Include the use of any capital the partner provided if the payments (or credits) for that capital are not determined by the partnership’s income and can be allocated to a trade or business activity. These entries should *not* include any payments and credits that should be capitalized or any distributive shares of partnership profits.

**NOTE** Guaranteed payments to partners can also be reported on screens **8825** and **RENT**.

## Partner Health Insurance

To report partner health insurance:

- In the “Partner’s health insurance” field on the **DED** screen, line 10, enter amounts paid during the tax year for health insurance by a partnership on behalf of a partner for services as a partner (including a partner’s spouse or dependents or children under age 27 who are not dependents). (See field help on line 10 of the **DED** screen for more information.)
- An entry on line 13d, item “M, Amount paid for medical insurance,” of the **Deductions** tab of screen **K** overrides the amount entered on the **DED** screen and the **8825** screen for the partners’ health insurance premiums.
- To allocate the total amount of health insurance costs among the partners, click the **SA** link to the right of the amount field on line “M” of the **Deductions** tab of screen **K**. (For details on using the **SA** screen, see “Special Allocations” on page 35.)

Entries flow to boxes 4 and 13 of the partners’ Schedule K-1, to the total on line 13d of Schedule K, and to Form 1065, page 1, “Guaranteed payments to partners.”

For information on the partnership’s contribution to a partner’s Health Savings Account (HSA), see Notice 2005-8, 2005-4 I.R.B. 368.

## Repairs and Maintenance

Use the **DED** screen to enter the costs of repairs and maintenance. See Form 1065 instructions for IRS requirements regarding costs that can be entered here.

## Bad Debts

Use the **DED** screen to enter the total of all bad debts that became worthless during the 2019 tax year, but only if these debts related to a trade or business activity. Deductible non-business bad debts should be entered as short-term capital losses on screen **8949**.

**NOTE** Cash-method partnerships cannot take a bad debt as a deduction unless the amount was previously included in income.

## Rents

Use the **DED** screen to enter rent paid on business property used for a trade or business activity. If the partnership rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the partnership, and then complete Part V of the **4562** (screens **8** and **9**).

## Taxes and Licenses

Use the **DED** screen to enter tax and license payment data. Amounts entered here flow to the “Taxes and licenses” line of Form 1065, and to the “Wks Tax/Lic” worksheet in View/Print mode.

**NOTE** Credit from Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, automatically adjusts the amount of taxes and licenses on Form 1065.

State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen flow to the tax computation on the “Wks Tax/Lic” worksheet. The state tax amount flowing from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used, and which tax type is selected.

## Interest

The “Interest” line of Form 1065 refers only to the interest incurred by the partnership in a trade or business activity that is not claimed elsewhere in the return.

Use the **DED** screen to enter interest expense amounts. Do not include interest expense on the following:

- Debt required to be allocated to the production of qualified property
- Debt used to buy rental property or debt used in a rental activity
- Debt used to purchase property held for investment
- Debt proceeds allocated to distributions made to partners during the tax year

## Self-Charged Interest

Self-charged interest rules (see Form 1065 instructions) do not apply if a partnership elects under Reg. section 1.469-7(g) to avoid the application of them. If the partnership is making this election, a statement must be included with the return.

To include the statement:

Screen Code:  
**ELEC**

1. Click the **ELEC** link on screen **DED**. (The **ELEC** screen is also available from the **Miscellaneous** tab of the **Data Entry Menu**.)
2. In the **Election** drop list, select **19 - Not Apply Alternative Treatment to Self-Charged Items**.

When the return is calculated, the statement (“Statement EL19” in View/Print mode; see Figure 1 on page 20), including the required text, will be included in the return.

Federal Supporting Statements		2019 PG01
Partners In Grime		41-4141414
Statement #EL19		
Election to Not Apply Alternative Treatment to Self-Charged Items of Interest Income and Deduction		
Pursuant to Regulation Section 1.469-7(g), the Partnership hereby elects to not apply the alternative self-charged interest rules for the tax year ended 09-30-2020, and all subsequent years.		
The Partnership referred to in this paragraph is:		
Name: Partners In Grime		
Address: 1234 Main Street		
City: Franklin		
State: NC		
ZIP: 28734		
EIN: 414141414		

**Figure 1:** Self-Charged Interest statement

For more information on self-charged interest rules, see the “Self-Charged Interest” section of the Form 1065 instructions.

**NOTE** Using the **ELEC** screen for this statement does not prevent the return from being e-filed.

## Depreciation

Use screen **4562** to enter depreciable assets for Form 1065, Form 1125-A, Schedule F, Form 8825, the **RENT** screen (rental other than real estate), and Section 754. (To associate a depreciable asset with an activity, make a selection from the **For** drop list at the top of the **4562** screen.)

### Using the DED screen for Direct Entry

As explained further in “Line 16, Depreciation,” following, the **DED** screen has two lines for direct entry of depreciation, both adjustment fields:

- **Line 16a** — Depreciation
- **Line 16b** — Depreciation claimed elsewhere on return

Any item entered in a depreciation field on the **DED** screen is *added to* the calculations from all **4562** screens. **DED** screen amounts are reflected on page 1 of Form 1065 but are not shown on any generated Form 4562.

**IMPORTANT** The depreciation fields on any screen should be used only if Form 4562 is *not* required.

For more information on depreciation and the **4562** screen in Drake Tax, see the *2019 Drake Tax User’s Manual*.

### Line 16, Depreciation

Line 16c of Form 1065 is reserved for depreciation that (1) is from Form 4562 and (2) is claimed elsewhere. While the program pulls data from the **4562** screen for this line,

it also provides field **16b** (Figure 2) on screen **DED** specifically for depreciation that is claimed elsewhere.

Delivery.....		
17 Depletion (do not deduct oil and gas depletion).....		
16a Depreciation.....	<a href="#">Form 4562</a>	+/-
16b Depreciation claimed elsewhere on return.....		+/-
Discounts.....		

**Figure 2:** Depreciation line 16 fields from **DED** screen

Both lines **16a** and **16b** on the **DED** screen are adjustment fields and add to or subtract from program calculations that are based on entries elsewhere in the program. Enter only the depreciation claimed on assets used in a trade or business activity:

- **Line 16a** — An entry here is added to the depreciation from the **4562** screens. The amount on line **16a** is *not* reflected on Form 4562.

## NOTE

Section 179 expense does not flow to page 1, “Depreciation,” of Form 1065. It is reflected on Schedule K, “Net long-term capital gain,” and then distributed to each partner on Schedule K-1.

- **Line 16b** — Drake Tax recommends using screen **A** (rather than the **DED** screen) to enter depreciation claimed on Form 1125-A. An entry in the “Other costs - depreciation” line on screen **A** adjusts any entry on line **16b** of the **DED** screen and is calculated into the total deductions on Form 1065. (An entry in the **Other costs - depreciation** line on screen **A** also overrides calculated amounts for entries on **4563** screens directed to COGS.) If there is an entry on line **16b** of the **DED** screen but not screen **A**, only the line **16b** amount is calculated into total deductions.

**Section 754** Use screen **4562** to enter section 754 depreciation. To associate the depreciable asset with section 754, select “754” from the **For** drop list at the top of the screen.

For information on allocating Section 754 depreciation to specific partners, see “Special Allocations” on page 35 and “Section 754 Allocations” on page 54.

**Section 179** Section 179 expense is not included on Form 4562, line 22, nor is it carried to line 16a of Form 1065. It is instead reflected on line 12 of Schedule K and distributed to each partner on Schedule K-1.

## Reclassify to Amortization

To reclassify an asset from depreciation to amortization:

1. Open screen **4562** for the asset.
2. From the **Method** drop list, select **AMT - Amortization**.
3. Complete the applicable fields in the **Amortization** section of screen **4562**.

## Depletion

Enter depletion amounts on the **DED** screen. If the partnership claims a deduction for timber depletion, complete and attach Form T, Forest Activities Schedules, available from the IRS website. (Attach this form as a PDF document to e-filed returns. See “The PDF Attachment Process” on page 78.) Do not deduct depletion for oil and gas properties. Depletion should be figured for each partner on screen **DEPL**. See “Oil and Gas Depletion Worksheet” on page 45 for more on entering oil and gas depletion in the 1065 package.

**NOTE** The Depletion Worksheet in the Partnership package is for informational purposes only. Depletion is calculated in the partner’s individual returns.

## Retirement Plans

Use the **DED** screen to enter amounts for line 18, “Retirement plans, etc.” See the IRS instructions for guidance on what costs are acceptable for this line.

**NOTE** The program reduces the expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs.

### IRA for Employees

If the partnership contributes to an IRA for employees, include the contributions in salaries and wages on either the **DED** screen (**Salaries and wages** line) or screen **A** (**Cost of labor** line).

### Payments to Partners

Do not use line 18 of the **DED** screen to deduct payments for partners to retirement or deferred compensation plans, IRAs, qualified plans, Simplified Employee Pension (SEP), or SIMPLE IRA plans. Report these amounts, which are deducted by the partners on their own returns, on screen **K** (**Deductions** tab), item 13d, code **R**.

## Employee Benefit Plans

Use the **DED** screen, line 19, to enter the partnership’s contributions to employee benefits programs (such as insurance, health, and welfare programs) that are not part of a pension or profit-sharing plan included in line 18, “Retirement plans, etc.”

### Amounts Paid for Medical Care

The line 19 amount should *not* include amounts paid for insurance that constitutes medical care for a partner, a partner’s spouse, or a partner’s dependents. For information on entering amounts paid for medical care, see “Guaranteed Payments and Partner Health Insurance” on page 17.

### Pub. 541

IRS Pub. 541 states that premiums for health insurance paid by a partnership on behalf of a partner for services as a partner, are treated as guaranteed payments. The partnership can deduct these payments as a business expense, and the partner must include them in gross income. The partnership *cannot* deduct the premiums, however, if the partnership accounts for insurance paid as a reduction in distributions for that partner.

In that case, go to the **K1** screen for the partner and mark the **Health Insurance distribution reduction** box (line 13M) at the bottom of the screen.

A qualifying partner can deduct 100% of the health insurance as an adjustment to income. The partner cannot deduct the premiums for any calendar month, or part of a month, in which he or she is eligible to participate in any subsidized health plan maintained by the employer of the partner or the partner's spouse.

## Other Deductions

Enter all other deductions on the **DED** screen. Drake Tax calculates these amounts and incorporates the total into the "Other deductions" line of Form 1065.

The following deductions, credits, adjustments, and exclusions also flow to the "Other deductions" line:

- Amortization from Form 4562, Depreciation and Amortization
- Credit adjustment from Form 6765, Credit for Increasing Research Activities
- Credit adjustment from Form 8820, Orphan Drug Credit
- Exclusion from Form 8873, Extraterritorial Income Exclusion
- Credit from Form 8941, Credit for Small Employer Health-Insurance Premiums

## Tax and Payments

In Drake Tax, the **TAX** screen is used to complete the "Tax and Payment" section of Form 1065. Payment of the tax depends on which line the tax is reported. Depending on the type of tax and the required payment, it is possible that the partnership could have to write separate checks to remit payment since there are separate form attachments, payment types, and addresses listed for the different lines. There are no estimated payment requirements at this time

Use the **TAX** screen to report the following data:

**Line 23:** "Interest due under the look-back method – completed long-term contracts." Data entered on line 23 adjusts an amount flowing from Form 8697, Look-Back Method for Completed Long-Term Contracts.

### NOTE

Form 8697 is used to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion method or the percentage of completion-capitalized cost method.

Click the **8697** link on screen **TAX** to complete and generate Form 8697. Drake Tax e-files Form 8697 with the 1065 return unless there is a refund of interest paid on certain long-term contracts, or if the form is being filed separately with a payment, in which case the form must be signed and then mailed:

- If a refund is due, select the **Mark the box if filing this form separately** check box on screen **8697**, print the form, and after having it signed, mail it.

- If making a payment of interest due, select the **Mark the box if filing this form separately** check box on screen **8697**, print and sign the form, then mail the form with a check or money order for the full amount, made payable to “United States Treasury.” Write the partnership’s Employer Identification Number (EIN), day-time phone number, and “Form 8697 Interest” on the check or money order.)

See Screen Help (press CTRL+ALT+? or select from a right-click menu) or the IRS instructions for Form 8697 for information on how and why to file Form 8697.

**Line 24:** Form 8866 is used to figure the interest due or to be refunded under the look-back method of section 167(g)(2) for property placed in service after September 13, 1995, that is depreciated under the income forecast method as described in section 167(g).

Data entered on line 24 of the **TAX** screen adjusts an amount flowing from Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method. To complete the form, click the **8866** link on screen **TAX**. Drake Tax e-files Form 8866 with the 1065 return unless there is a refund of interest paid, or if the form is being filed separately with a payment, in which case the form must be signed and then mailed:

- If a refund is due, select the **Mark the box if filing this form separately** check box on screen **8866**, print the form, and after having it signed, mail it.
- If making a payment of interest due, select the **Mark the box if filing this form separately** check box on screen **8866**, print and sign the form, then mail the form with a check or money order for the full amount, made payable to “United States Treasury.” Write the partnership’s Employer Identification Number (EIN), day-time phone number, and “Form 8866 Interest” on the check or money order.)

See the IRS instructions for Form 8866 for information on how and why to file Form 8866.

**Line 25:** “BBA AAR imputed underpayment.” Use this line if the partnership is filing an AAR electronically and chooses to pay the imputed underpayment. For instructions on how to figure the imputed underpayment, see the Instructions for Form 8082.

Write the name of the partnership, the tax identification number, tax year, “Form 1065,” and “BBA AAR Imputed Underpayment” on the payment. Checks must be payable to “United States Treasury” and mailed to:

Ogden Service Center  
Ogden, UT 84201-0011

Payments can be made by check or electronically.

**Line 26:** “Other taxes.” In a few rare instances, payments other than those listed above may have to be made with Form 1065. Enter a description of these payments and the amounts being paid in the **Other Taxes** text boxes on line 26 of screen **TAX**. In View/Print mode, “Statement TAX” lists these other taxes.



**Line 28:** “Payment.” Enter on this line any prepayments related to lines 23-26 above. Data entered here adjusts an amount entered on screen **7004** screen for payments made with the extension.

## Filing an Extension

Generally, a domestic partnership must file Form 1065 by the 15th day of the 3rd month following the date its tax year ended as shown at the top of Form 1065.

Calendar year returns are due on March 16, 2020. By filing Form 7004, a partnership can extend the deadline six months to September 15, 2020. Fiscal-year returns are due on the fifteenth day of the third month after the end of the fiscal year.

To file a 1065 extension, use one of the following options:

- Go to the **7004** screen in Drake Tax (**Other Forms** tab of the **Data Entry Menu**) and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen and select **Prepare a Form 7004 extension**.

## Signing the Return

PIN signatures are required for e-filed returns. To e-file a return, complete all fields on the **PIN** screen. A return cannot be e-filed if the **PIN** screen is not completed, including title and signature (name) of the general partner or LLC member manager. (See “‘Signs Return’ Partner,” following.) A signing date and SSN of the signing person is also required.

### “Signs Return” Partner

If the **Signs return** check box was selected for one of the partners on a **K1** screen, that partner’s title, name, SSN, and phone number will be combined with the ERO’s PIN, the partner’s PIN, and the signing date on the **PIN** screen that must still be entered on the **PIN** screen in order to e-file the return. If the **Signs return** check box is not marked on any **K1** screen, then the **ERO PIN**, **Partner PIN**, **Signature date**, **Title**, and **Signature** fields on the **PIN** screen must be completed manually.

### Preparer’s Signature

If the return is prepared by a paid preparer, the preparer must complete the required information and sign the return in the space provided on the **PIN** screen. If the return is prepared by a partner or an employee of the partnership, open screen **1** and select **NONE** in the **Firm #** and **Preparer #** drop lists.

To have the preparer’s signature displayed on the *printed* return:

- If the return preparer and ERO (entered in **Setup > Electronic Filing & Account Information**) are the same:
  - Go to **Setup > Preparer(s)** and ensure that the **Alternative Electronic Signature** box is marked for the preparer.
  - Enter the preparer’s PIN on the **PIN** screen for the return.
- If the return preparer and ERO are *not* the same, go to the **PRNT** screen and complete the field labeled **PIN for preparer’s alternative electronic signature**. The

PIN entered should match the one entered for the preparer in **Setup > Preparer(s)**. (For more information, press F1 in this field.)

## NOTE

**Setup > Electronic Filing & Account Information** must still be completed in Drake Tax for e-file. For information on how to complete this setup window, see *2019 Drake Tax User's Manual*. See the IRS instructions for further details on signature requirements.

The optional **Suffix** drop list and **Professional** text box on the **PIN** screen allow you to add such designations as “Jr.,” “Sr.,” “III” to the name of the partner and such professional designations as “Dr.” or “Ret.”

### Missing PIN Information

If you receive a state EF Message stating, “Authentication Header,” check the **SSN** field on the **PIN** screen for a missing SSN. Also make sure the **Title** and **Signature** (name) fields for the partner signing the return are completed. (SSN is not required for federal returns.)

### Form 8879-PE

You must receive the completed and signed Form 8879-PE, IRS e-file Signature Authorization for Form 1065, *before* the return is e-filed. This form must be kept in the tax office for three years from the return due date or IRS received date, whichever is later.

To generate the filing instructions for Form 8879-PE, either:

- From the **Home** window of Drake Tax, go to **Setup > Options > Client Communications** tab and set the program to print the filing instructions for all returns
- Inside a return, open the **PIN** screen and mark the box to print the 8879-PE filing instructions for that return

The 8879-PE filing instructions will be listed in View/Print mode.

For information on using an electronic signature pad to digitally sign Form 8879-PE, see “Electronic Signatures” in Chapter 6, “Return Results,” of the *2019 Drake Tax User's Manual*.

## Amending a Return

## CAUTION

When you amend a return in Drake Tax, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see “Archive Manager” in Chapter 6, “Return Results,” in the *2019 Drake Tax User's Manual*.

To file a 1065 return that has been amended:

1. Go to screen **1** in data entry and select **Amended return** in section **G**.
2. Make changes as applicable to forms and schedules.
3. Go to the **EF** screen and select **Amended 1065** in the left-hand column.
4. Go to the **SCH** screen (available from the **Miscellaneous** tab of the **Data Entry Menu**) and complete the following fields:
  - **Statement number** — Select **011 - Amended Return Statement**.

- **Title** — Enter a statement title of 28 or fewer characters.
- **Explanation text box** — Identify the amended items by line number and explain what was changed and why.

If amending just the K-1s, go to each **K1** screen, select **Amended K1**, and make needed changes.

## NOTE

When amending a 1065 return, all K-1s are amended, and the “Amended K-1” box on the return is marked automatically. To override this default, go to the **PRNT** screen and mark **Do NOT check amended box on Sch. K-1**.

## TEFRA and Filing Eligibility

A partnership subject to the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) audit rules cannot file an amended Form 1065 to correct a partnership item reported on a previously filed return, but according to these rules, the partnership representative (PR) must file Form 8082 on the partnership’s behalf and request the IRS treat the Form 8082 as a substituted return. A partnership qualifying as a small partnership (see Section 6231(a)(1)(B)) – with 10 or fewer partners at any one time during the year – is exempt from the TEFRA audit rules and can file an amended Form 1065 and corrected K-1s to partners.

## Additional Information

This section covers Schedule B, “Other Information,” state-specific information, and some program overrides.

## NOTE

If an entity and not an individual is selected as the partnership representative on a **K1** screen, additional data is required in the **Designation of Partnership Representative** section of screen **B (Schedule B, cont. tab)**.

## Schedules B, B-1, and B-2

The program has five screens for entering data for Schedule B, Other Information, Schedule B-1, Information on Partners Owning 50% or More of the Partnership, and Schedule B-2, Election Out of the Centralized Partnership Audit Regime:

- Screen **B (Schedule B tab)** — For lines 1 through 20 (excepting lines 2 and 3)
- Screen **B (Schedule B cont. tab)** — For lines 21 through 28 (excepting line 26)  
See “New for 2019,” following
- Screen **B1** — For lines 2a and 2b of Schedule B-1 (foreign ownership of the partnership). Much of the data on Schedule B-1 flows from entries on each partner’s **K1** screen. See “Schedule B-1 Information” on page 28.
- Screen **B2** — For Schedule B-2, electing out of an audit regime and listing shareholders in an S corporation that is a partner in the partnership (See “Electing Out of Centralized Partnership Audit Regime” on page 30.)

- Screen **B3** — For lines 3a and 3b of Schedule B (ownership of foreign companies by the partnership)

From screen **B**, you can access screens **B1** and **B3** by clicking the applicable links (**Schedule B1** and **Attachment 3a and 3b**) or by pressing PAGE DOWN twice (for screen **B1**) or three times (for screen **B3**).

NEW FOR  
2019

- Line 27 of Schedule B is for the number of foreign partners subject to section 864(c)(8).
- Line 28 is for any transfers between the partnership and its partners subject to the disclosure requirements of Regulations section 1.707-8.

## Schedule B-1 Information

Enter the required Schedule B-1 information – type of partner, country of organization, percentage owned in profit, loss, or capital – on each partner’s **K1** screen. (This information can also be entered on screen **B1** screen.)

When you make a selection from the **Country of Incorporation** drop list in the **Schedule B-1** section (figure at left) of a **K1** screen, and then make an entry in the **Max**

**Percentage Owned** field, the program automatically answers questions 2a and 2b of Schedule B, and produces Schedule B-1, using the information entered on the **K1** screen—name, ID number, type of partner, ownership percentage—to complete Parts I or II (as appropriate).

Of course, you can continue to use the **B1** screen if you prefer.

### Foreign Ownership

If the partnership owned, directly, an interest of 20% or more, or owned, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation, use the **Line 3a** section of screen **B3** to enter the corporation’s name, EIN, country of incorporation, and percentage owned in voting stock. (From the B screen, click the **Attachment 3a and 3b** link.)

If the partnership owned, directly, an interest of 20% or more, or owned, directly or indirectly, an interest of 50% or more in profit, loss, or capital in any foreign or domestic partnership or in the beneficial interest of a trust, use the **Line 3b** section of screen **B3** to enter the entity’s name, EIN, type, country of organization, and maximum percentage owned in profit, loss, or capital.

## NOTE

Which screens are required depends on the percentage owned. See Form 1065 instructions for calculating the maximum percentage owned.

**Line 4  
Requirements**

If question 4 on screen **B** is answered **Yes**, Schedules L, M-1, M-2, and Section L of Schedule K-1 are not required and therefore not printed. The four conditions that must be met in order to answer **Yes** to this question are:

- The partnership's total receipts for the tax year were less than \$250,000.
- The partnership's total assets at the end of the tax year were less than \$1,000,000.
- Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.
- The partnership is not filing and is not required to file Schedule M-3.

The **4c** check box on screen **B** allows you to indicate that the Schedules K-1 were *not* furnished to the partners on or before the due date of the partnership return while answering "Yes" to the other three parts.)

For more on line 4, see "Schedule L (Balance Sheets Per Books)" on page 56.

**Partnership Representative**

Partnerships must appoint a "partnership representative." The partnership representative (PR) does not have to be a partner in the partnership but does have to possess a U.S. taxpayer ID number (TIN), and the address of the representative must be a U.S. address. This information is entered on the appropriate **K1** screen (see the figure on the following page) or in the override fields on the **Schedule B cont.** tab of screen **B**.

The PR has "complete authority to act on behalf of the partnership" when dealing with the IRS. This includes legally binding the partnership (and therefore, the partners) in terms of audits and other IRS proceedings.

The Drake Tax program does not select a PR if one is not indicated on screen **K1** or the **Schedule B**

**cont.** tab of screen **B**. An EF Message is generated, stopping e-file until a selection of a representative is made.

The same is true if more than one partner is indicated as the PR. An EF Message stops e-file until a single selection is made.

Indicate the person who will act as the representative using the **PTR REP** check box on screen **K1** (figure above). The representative's information is printed at the bottom of page 3 of Form 1065.

To change or revoke a previously selected partnership representative, click the **8979-PR Revocation** check box on the **Schedule B cont.** tab of screen **B** and complete

**Schedule K-1 - Partner's Share of Income, Credits, Deductions, etc.**

Other Information:  Control number  Signs Return  PTR REP  Rounding Partner

Schedule B-1: Country of Incorporation/Organization Max Percentage Owned.....

Partner's Name and Address Information

E ID number..... 400006665 Title for Pin Signature.....

F Name..... William Carter

Entity name (if not individual).....

Care of/FBO/DBA.....

Address..... 1234 Main Street

City..... Franklin

State ZIP NC 28734 Resident state NC

Province/State Country Postal Code

Form 8979, Partnership Representative Revocation, Designation, and Resignation Form.

Any information entered in the override fields of the **Designation of Partnership Representative** section of the **Schedule B cont.** tab of screen **B** overrides the PR election made on a screen **K1**.

## NOTE

If an entity and not an individual is selected as the Partnership Representative on a **K1** screen, additional data will be required in the **Designation of Partnership Representative** section of the **Schedule B. cont.** tab of screen **B**.

## Reporting Limitation on Business Interest Expense

Every taxpayer who deducts business interest is required to file Form 8990, Limitation on Business Interest Expense Under Section 163(j), unless an exception for filing is met. Form 8990 is used to figure the amount of business interest expense the partnership can deduct and the amount to be carried forward to the next year.

Screen code:  
8990

If any of the criteria listed on line 24 of screen **B (Schedule B, cont. tab)** is met, mark the **Yes** check box on that line, then go to screen **8990**, available through the **Other Forms** tab of the **Data Entry Menu**

A partnership is not required to file if it is a “small business taxpayer” and does not have excess business interest expense from another partnership. The partnership is also not required to file Form 8990 if it has only interest expense from these excepted trades or businesses:

- The trade or business of providing services as an employee
- An electing real property trade or business
- An electing farming business
- Certain utility business

A “small business taxpayer” is a taxpayer that is not a tax shelter and has average annual gross receipts of \$25 million or less for the three prior tax years under the gross receipts test.

Before entering data in the fields on screen **8990**, enter data all other screens needed to complete Form 1065. View the return (press CTRL + V) and note the “Ordinary business income (loss)” on page 1, line 22 of Form 1065, then return to this screen and enter the taxable amount on line 6. Complete all other appropriate fields on this screen.

## Electing Out of Centralized Partnership Audit Regime

Question 25 of Schedule B (available on the **Schedule B cont.** tab) asks if the partnership is electing out of the centralized partnership audit regime. If the answer is “Yes,” then Drake Tax generates Schedule B-2, Election Out of the Centralized Partnership Audit Regime, listing all partners in the partnership based on the information provided on the **K1** screens in the program. (If any of these partners is a partnership, however,

or if the partnership has more than 100 partners, the partnership cannot elect out of the centralized partnership audit regime and is ineligible to use Schedule B-2.)

Screen Code: **B2**

If a partner in the partnership is an S corporation, all the shareholders of that corporation must be included in Part II of Schedule B-2. Those shareholders' names, ID numbers, and their "type" must be entered on the **Schedule B-2** screen (available through a link on the **Schedule B cont.** tab or from the **Data Entry Menu**). Each of these shareholders count as a partner toward the 100-partner limit for the eligibility to elect out of the audit regime and eligibility to use Schedule B-2.

If the answer to question 25 is "No," Drake Tax completes the "Designation of Partnership Representative" section at the bottom of Schedule B automatically, based on the **K1** screens included in the return. (Information on the partnership representative also can be entered on the **Schedule B cont.** tab of screen **B**.)

## Form 8996 and 8997, Qualified Opportunity Funds

Section 1400Z-2 provides partners investing eligible gains in Qualified Opportunity Funds (QOF) can "defer recognition of certain gains."

**Form 8996** In Drake Tax, click the link on line 26 of screen **B (Schedule B cont.** tab) to access screen **8996** to complete Form 8996, Qualified Opportunity Funds. The partnership files Form 8996 annually to report that the QOF meets the investment standard of section 1400Z-2 or to figure the penalty if it fails to meet the investment standard.

See Form 8996 and its related instructions for more information.

**Form 8997** An investor in a qualified opportunity fund (QOF) uses Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments, to inform the IRS of the QOF investments and deferred gains held at the beginning and end of the current tax year, as well as any capital gains deferred and invested in a QOF and QOF investments disposed of during the current tax year.

**NOTE** Form 8996 must be mailed. It is not eligible for e-file.

### Eligible Foreign Entity

If the partner is an eligible foreign entity, one that would be treated as a C (1120) corporation were it a domestic entity, select the **B2 - Eligible foreign entity** check box in the **Type of Partner** section (the middle of screen **K1**.) The partner will be labeled with the correct code in the "Type of Eligible Partner" column of Schedule B-2, Election Out of the Centralized Partnership Audit Regime.

## Form 8832, Entity Classification Election

Form 8832, Entity Classification Election, is used by a business entity to elect how it will be classified for federal tax purposes, as a corporation, a partnership, or an entity disregarded as separate from its owner. An eligible entity is classified for federal tax purposes under the default rules described below unless it files Form 8832 or Form 2553, Election by a Small Business Corporation. The IRS uses the information



entered on this form to establish the entity's filing and reporting requirements for federal tax purposes.

In Drake Tax, screen **8832** is available on the **Other Forms** tab of the **Data Entry Menu**.

## State-Specific Information

**Resident State** The program automatically generates a return for the partnership's resident state. Use screen **2** to enter company information as it should appear on the state return. (Access screen **2** from the **States** tab, or enter **2** in the selector field and press ENTER.)

**NOTE** The company information fields on screen **2** apply to the resident state only.

Company information on screen **2** includes the type of return that applies for state purposes (consolidated, composite, controlled group, multi-state) and state-specific dates and numbers for identification.

**Contact Information** If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2** for the alternative data for registered office, principal place of business, "Books in care of," and general contact information for the partnership's contact person.

**Other States** Data for other states must be entered in state data entry. To access state data entry, select the **States** tab from the **Data Entry Menu** and select the desired states for state-specific screens (or type the two-letter state code in the selector field and press ENTER).

**Multi-State Apportionment** Enter sales, payroll, and property factors on the **APPT Multi-State Apportionment** screen (accessible from the **States** tab or by entering APPT in the selector field and pressing ENTER). This screen (Figure 3 on page 33) provides one central location for entering all state apportionment information instead of having to open each needed state's screen.

In addition to making data input faster and easier, this feature provides two worksheets: a summary worksheet ("Wks SA-SUM") that can be used for verifying input, and a reconciliation worksheet ("Wks SA-REC") that ties the total of the state amounts to the federal return figures. These worksheets are available in View/Print mode.

The individual state apportionment screens are still available in Drake19 but will be used to override data entered on the **APPT** screen.



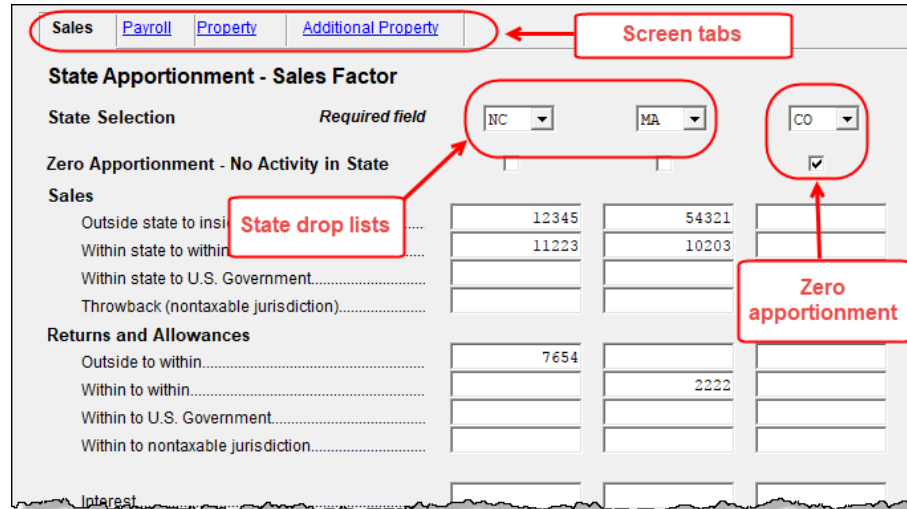


Figure 3: APPT (Multi-State Apportionment) screen

NOTE

Mark the **Zero Apportionment** check box (Figure 3) to add a state but not include any apportionment data. This will include the state on the apportionment summary worksheet (“Wks SA-SUM”), available through View/Print mode.

APPT Screens

The APPT screen is opened to the **Sales** tab. Links at the top of this screen take you to the **Payroll**, **Property**, and **Additional Property** information tabs for each state selected (Figure 3). These screens and their uses are listed in Table 1.

Table 1: APPT Screens

Screen	Information
Sales	Select state; enter sales, returns and allowance, and other income-related information for each selected state
Payroll	Enter guaranteed payments to partners, salary, wage, commission, labor, and repairs amounts for each selected state
Property	Enter beginning and ending amounts of common apportionment factors, plus select additional apportionment factors from drop lists
Additional Property	Select additional apportionment factors from drop lists

NOTE

The **Ending** amount entered on the **Property** and **Addition Property** tabs in 2018 became the **Beginning** amount for property on the APPT screen when the client’s return was updated in Drake19.

You may enter up to four states on one APPT screen. If you need more than four states, press PAGE DOWN for a new APPT screen. The same state can be entered more than once when additional fields are needed.

Select **OT Other Reconciliation** from the **State Selection** drop list on the **Sales** tab when using the reconciliation worksheet. Not every item appearing on the federal

return may be subject to multi-state apportionment. When you select **OT**, the data entered becomes a reconciling adjustment amount to aid in tying to the federal return.

Enter as much or as little detail as the states require. If a state does not require any information to be entered, no information flows to that state's return.

## Other Information and Overrides

Use screen **1** to enter the following additional information:

**Resident State** — If the partnership has a mailing address in one state but does business in another, use the **Resident state** drop list to select the state in which the partnership does business.

**Drake Codes and Overrides** — For information on miscellaneous codes, invoice numbers, and override fields, see the following sections of the *2019 Drake Tax User's Manual*:

- “Listing a Different Firm, Preparer, or ERO on a Return,” in Chapter 2, “Installation & Setup.”
- “Miscellaneous Codes,” in Chapter 5, “Return Preparation.”

NEW FOR  
2019

An option to **Update Misc Codes on Screen 1**, available during the update process (**Last Year Data > Update Client 2018 to 2019**) was added to the federal business packages. For more information on using these code fields, see “Miscellaneous Codes” in Chapter 5 of the *2019 Drake Tax User's Manual*.

**Entity Name Control Override** — Use this field only if your client has obtained a Name Control from the IRS.

## Schedule K (Partners' Distributive Share Items)

Use the **K** screens to enter data for Schedule K, Partners' Distributive Share Items.

NOTE

Note the screen **K** fields are primarily adjustment fields. Press F1 in a field to see what amounts are adjusted from elsewhere in the program.

Screen **K** is a “tabbed” screen with separate tabs (circled in Figure 4 on page 35) for data entry of income, deductions, credits, AMT and basis, and other information. There is also a tab for **Analysis of Net Income**.

Income (Loss) | **Deductions** | Credits | AMT and Other Information | Other Information cont'd | Analysis of Net Income

**K - Partners Distributive Share of Income (Loss) and Self-Employment**

Use SA link to complete special allocations by partner using dollar amounts or percentages. Special allocations for rent can be completed per property on the 8825 and RENT screens. [Video: Special Allocations](#)

1	Ordinary business income (loss).....		<a href="#">SA</a>
2	Net rental real estate income (loss).....	<a href="#">Form 8825</a>	
	Disposition of property from rental real estate activities (8825, line 19).....		<a href="#">SA</a>
	Net rental real estate income (loss) from pass-through entities (8825, line 20a).....		<a href="#">SA</a>
3c	Other net rental income (loss).....	<a href="#">RENT Screen</a>	
4a	Guaranteed payments for services.....	+/- <input type="text" value="7777"/>	<a href="#">SA</a>
	Portion of 4a allocated for other than services and not subject to SE tax.....	+/- <input type="text" value="8888"/>	<a href="#">SA</a>
4b	Guaranteed payments for capital.....	+/- <input type="text" value="9999"/>	<a href="#">SA</a>

Figure 4: Screen K is tabbed (circled at the top of the screen)

Each of the tabs includes such “Other” items such as “Other” income and “Other” deductions, etc., allowing a detailed supplemental K-1 statement (Figure 5).

Schedule K-1 Supplemental Information		2019 PG01
Partner Name		Partner ID Number
William Carter		400-00-6665
Name of Partnership		Partnership Ltr
Partners In Grime		41-4141414
<u>Line 11 - Other Income (Loss)</u>		Statement #99
<u>Code Description</u>		<u>Amount</u>
D Mining exploration costs recapture		1,111
E Cancellation of debt		889
<b>Total</b>		<u>2,000</u>
<u>Line 13 - Other Deductions (Loss)</u>		
<u>Code Description</u>		<u>Amount</u>
W Section 754 depreciation/amortization		222
W Penalty on early withdrawal Not reported on Line 13b		424
W Film and television production expenses		242
W Interest expense allocated to debt-financed		444

Figure 5: Detailed statements with Schedule K “Other” items

### Special Allocations

Override the calculated amounts of Schedule K items on the SA (Special Allocation) screen, reached by clicking an SA link on screen K. Override the allocation of any of the items on screen K for any of the listed partners.

For example, in Figure 6 on page 36, the calculated allocation to the partners of **Ordinary dividends** (item #1) of \$123,342, is being overridden by **Dollar Amount** (#2). As the allocations are entered in the **Dollar Amount** column, the program shows the percentage of the total that equals the dollar amount allocated (#3). The program also keeps a running total of the allocated amounts and the amounts yet to be allocated (#4). To change from allocation by dollar amount to allocation by percentages, select **Percentage** (#5).

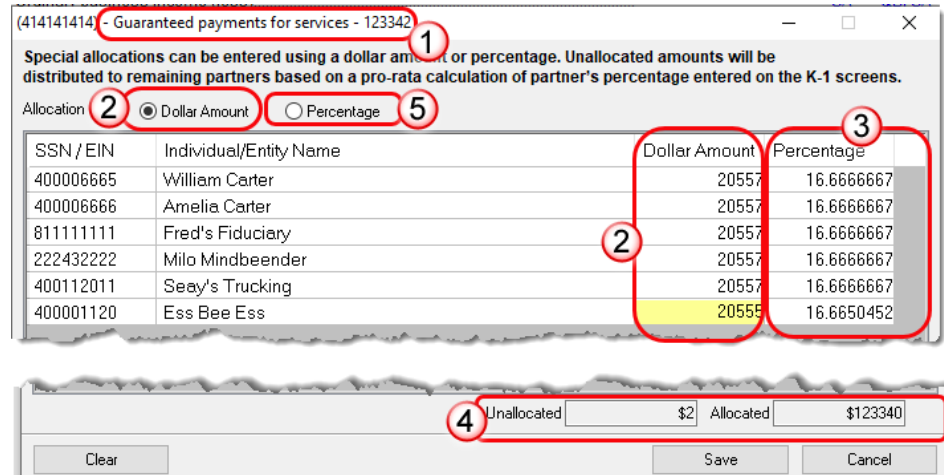


Figure 6: Special Allocations (SA) screen

## NOTES

- As with most of the **SA** links in the program, to use these **SA** links, you must first enter data on the screen, then save (close) the screen. Reopen the screen, and click the **SA** link to open the **Special Allocations** dialog box for the line you selected.
- When the return is calculated, any amounts remaining unallocated is allocated to the partners based on pro rata calculations of partners' percentage as entered on screen **K1**. Enter "0" (zero) for any partner to remove the partner from the pro rata distribution calculation.
- Section L of the Schedules K-1 is recalculated based on the overrides entered on the **SA** screen.

When you click an **SA** link from screens **K**, **M1**, **M2**, **M32**, or **M33** (there are also **SA** links on screens **L** and **199A**) to make a special allocation, and enter an amount or percentage on that **SA** screen, the screen link on the original **K**, **M1**, **M2**, **M32**, **M33**, **L**, or **199A** screen changes color (Figure 7), making it easier to find those items that have been overridden.

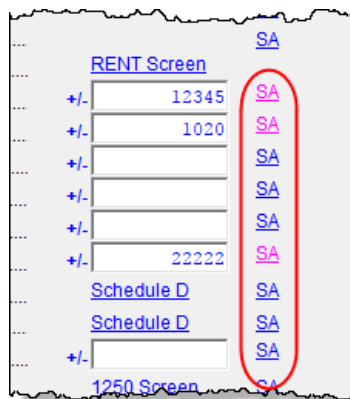


Figure 7: The SA links change color to indicate entries were made on the SA screen

The "Other adjustments" field of Section L of the Schedules K-1 will be recalculated based on the overrides entered on the **SA** screen to reconcile the ending capital.

For more on the "Other" fields of screen **M1**, see "Other" Adjustments" on page 61.

**Partners' Capital Analysis**

There are also links to the **SA** screen on screen **M2**. Use the **SA** screen in this instance to reconcile Schedule M-2, Analysis of Partners' Capital, to the "Partner's capital account analysis" in section L of Schedule K-1.

**Property Distributions**

There is also a link to screen **SA** on both screen **8825** and **RENT** to allow allocation of property or real estate rental income.

**3468 Amounts**

The **Special Partner Allocations for 3468 Amounts** link at the top-right corner of screen **3468** opens screen **Schedule K Line 20C for Form 3468**, allowing you to allocate investment credit amounts from Form 3468 to the partners.

- NOTES**
- **SA** screens should not be used for entering amounts on Schedule K.
  - **SA** screens cannot be used for any Schedule K line with a zero balance.

## Passing Through QBI Information

For tax years beginning after 2017, individuals, estates, and trusts that are partners in a partnership may be entitled to a deduction of up to 20 percent of their Qualified Business Income (QBI) from a trade or business, plus 20 percent of qualified Real Estate Investment Trust (REIT) dividends and qualified Publicly Traded Partnership (PTP) income. The deduction is subject to multiple limitations (such as the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid with respect to the trade or business, and the unadjusted basis immediately after acquisition of qualified property held by the trade or business) and can be taken in addition to the standard or itemized deductions.

*Partnerships* are not eligible for the QBI deduction; instead, they must pass the necessary information through to their *partners*. The partnership must attach a statement to its Schedules K-1, separately identifying each trade or business, and using the same box numbers as shown on Schedule K-1, the amount of the following items:

- Section 199A QBI
- Rental Income (loss)
- Royalty Income (Loss)
- Section 1231 Gain (Loss)
- Other Income (Loss)
- Section 179
- Charitable Contributions
- Other Deductions
- W-2 wages
- Unadjusted basis of assets
- Qualified REIT dividends
- Qualified PTP income
- QBI allocable to qualified payments received from the specified cooperative
- Pass-through Domestic Production Activities Deduction (DPAD) under Section 1099A(g) from a specified cooperative

Screen Code:  
199A or K199

So you can report this information, Drake Tax has included in the 1065 package screen **199A, Qualified Business Deduction by Activity**. (Links to screen **K199** take you to the same screen.) There are also the **Qualified Business Income (QBI) Deduction** sections on screens **F, RENT**, and **8825**. Drake Tax automatically produces the required statements with each partner's Schedule K-1.

*New for 2019:* A check box added to screen **199A** allows you to override the amounts calculated and flowing to the QBI worksheets.

## NOTE

The program calculates relevant QBI information based on data entry. It is important that you review the calculated results and rely on your knowledge of this client's tax situation. The program assumes that the partnership operates as a single business entity and that all of the income on Form 1065, line 22, "Ordinary business income (loss)," is Qualified Business Income for purposes of computing QBI deductions. If the amount on line 22 is from more than one trade or business, use screen **199A** to allocate QBI, W-2 wages paid, UBIA, REIT dividends, and PTP income among the separate trades or businesses. If any of the amount on line 22 is *not* QBI, (for example investment income) use screen **N199** to report that amount, and the W-2 wages paid, UBIA, REIT dividends, and PTP allocated to that income.

Most screens needed for reporting QBI — **199A, N199, PBAN, BAN** — can be found on the **Other Forms** tab of the **Data Entry Menu**.

## QBI Statements and Worksheets

*(New for 2019)* Drake Tax is including new worksheets with 1120S returns that report Qualified Business Income:

- Statement A** "Statement A – QBI Pass-through Entity Reporting" worksheet that includes Section 199A items, will be attached to and filed with Schedules K-1 this year.
- The "Qualified Business Income Information" worksheet – a summary of Statement A – will also be generated with the return. This worksheet will not be filed and is intended for the entity's records.
- Statement B** "Statement B – QBI Pass-through Entity Aggregation Elections," will be attached to and filed with Schedule K-1, and a "Qualified Business Income Aggregation" worksheet – a summary of Statement B – will be generated for entity's records.
- Statement C** "Statement C – QBI Pass-through Entity Reporting," will be attached to and filed with Schedule K-1, for patrons of specified agricultural and horticultural cooperatives. Certain patrons who conduct business through cooperatives may be able to include patronage dividends and similar amounts they receive from those cooperatives to calculate their own QBI deduction.. Specified agricultural or horticultural cooperatives are allowed a Section 199A(g) deduction for income attributable to domestic produc-

tion activities, which is similar to the domestic production activities deduction under former Section 199 before its repeal by the TCJA.

## Denoting Specified Service Trades or Businesses

Specified service trades or businesses are generally excluded from the definition of qualified trade or business. If the partnership is a Specified Service Trade or Business (SSTB), the partner could be subject to income limitations mentioned earlier; you must, therefore, mark the box on screen **1** denoting that this partnership is a “Specified Service Trade or Business,” if appropriate.

A specified service trade or business is any trade or business providing services in the fields of:

Health	Actuarial science	Athletics
Law	Performing arts	Financial services
Accounting	Consulting	Brokerage services

Also considered an SSTB:

- Any other trade or business where the taxpayer receives fees, compensation, or other income for endorsing products or services, for the use of the taxpayer's image, likeness, name, signature, voice, trademark, or any other symbols associated with the taxpayer's identity, or for appearing at an event or on radio, television, or another media format
- Investing and investment management
- Trading or dealing in securities, partnership interests, or commodities

## Reporting Section 199A Items

Report the Section 199A items to be passed through to the partners on screen **199A, Qualified Business Income Deduction**. On that screen, if the partnership operates more than one business, select **1065** from the **For** drop list; otherwise, select from the **For** drop list the screen (**K1P** or **K1F**) that this activity pertains to.

### NOTE

Report qualified business income from farms on screen **F** (Schedule F, Farm Income), in the **Qualified Business Income** section; for QBI from rental real estate, go to screen **8825** (Rental Real Estate); for QBI from rentals other than real estate, go to screen **RENT** (Rental Other Than Real Estate). These are all override fields; use them to override program calculations.

Screen Code:  
199A or K199

On each screen **199A** (Figure 8 on page 40), type in the EIN and name of the business, and be sure to mark the **Treat as a “specified service business,”** where appropriate. Type the Section 199A income information in the appropriate fields. To allocate the amounts and activities to the various partners, click the **SA** links. If reporting income data from more than one trade or business, press **PAGE DOWN** to allocate the data among the separate trades or businesses.



**Qualified Business Income Deduction**

NOTE: For partnerships that operate multiple businesses, select "1065" from the "For" drop list; otherwise, select the screen this activity pertains to.

Information entered on this screen flows to Schedules K and K-1 only.

For..... 1065 (1065, K1P, K1F)

Multi-form code: 2 (1-999; 1 is assumed if left blank)

EIN..... 54-5454545

Potential Business Aggregation Number (PBAN)..... 4

Business Aggregation Number..... 5

Trade or business name..... Huey's Hauling

Treat as a "specified service business"

Ordinary business income (loss).....	123456	<a href="#">SA</a>
Rental income (loss).....	4321	<a href="#">SA</a>
Royalty income (loss).....	4455	<a href="#">SA</a>
Section 1231 Gain (Loss).....		<a href="#">SA</a>

Figure 8: Qualified Business Income Deduction fields on screen 199A

## IMPORTANT

For details on each type of income, read the field helps for all the Section 199A items.

For screens **8825**, **RENT**, and **F**, select **Yes** or **No** from the **QBI** drop list if this activity is a trade or business. (If this return was updated from Drake '18, the field should be completed for you.)

## NOTE

If Form 1065 is filed with no Section 199A information in box 20 (code Z) of Schedules K and K-1, the IRS will assume that no QBI data was generated from this partnership and will not allow the QBI deduction on the partner's individual return.

## Safe Harbor for Rental Properties

A rental real estate enterprise can be treated as a trade or business for purposes of section 199A deduction. To qualify for this safe harbor, the enterprise must meet several requirements, among them:

- If 250 or more hours of rental services are performed each year in respect to this enterprise
- If separate books and records are kept for the enterprise
- The taxpayer maintains contemporaneous records

Commercial and residential real estate may not be part of the same enterprise for purposes of meeting this safe harbor.

Open screen **8825** for each rental property. In the **Qualified Business Income (QBI)** section at the bottom of the screen, select "N" from the **This activity is a trade or business** drop list. Make a selection from the **Rental real estate meets "safe harbor"...** drop list. The program produces the Rental Real Estate Safe Harbor worksheet ("QBI SAFE" in View/Print mode.)



If a rental doesn't qualify for the Safe Harbor, it might still qualify for the 199A deduction.

For complete details, see IRS Notice 2019-07.

## Aggregation and PBANs

On their Individual (1040) returns, partners have the choice to “aggregate” (or combine) certain businesses into one entity for purposes of computing the Qualified Business Income deduction (QBI). For that to happen, the partnership must tell the partners which trades or businesses qualify to be aggregated. This is done by using the **PBAN** fields.

Begin on screen **1** of the 1065 program. At the bottom of screen **1** is a field for entering a **Potential Business Aggregation Number (PBAN)**.

A PBAN works just like other “grouping” numbers in Drake Tax, such as multi-form codes and passive activity numbers. All forms with the same number are grouped — or in the case, “aggregated.” (See “Associating One Screen with Another” in Chapter 3 of the *2019 Drake Tax User's Manual* for more information on using multifirm codes).

If this partnership *potentially* qualifies to be aggregated with any other businesses on this 1065 return, enter a number in the **PBAN** field on screen **1**.

Enter this same number in the **PBAN** fields of every appropriate screen for each business on this return that potentially could be aggregated — including the

**199A** screen. (See “Reporting Section 199A Items” on page 39.) In the figure above (from screen **199A**), this trade has been aggregated with others using PBAN “2.”

The screenshot shows a form with the following fields and values:

- For: 1065 (dropdown menu)
- Multi-form code: (empty box)
- EIN: 23-4567890
- Potential Business Aggregation Number (PBAN): 2 (circled in red)
- Business Aggregation Number: (empty box)
- Trade or business name: Zandra's Zenias
- Treat as a "specified service business"

Screen Code:  
**PBAN**

Complete screen **PBAN** (available on the **Other Forms** tab of the **Data Entry Menu**) for each of the trades or business suggested for aggregation. Enter the proper PBAN and provide an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. Use the same PBAN for the **PBAN** screen as on the other screens of this aggregation.

Multiple trades or businesses can be aggregated into a single trade or business if they meet the following requirements:

- The taxpayer or a group of persons directly or indirectly own 50% or more of each trade or business for a majority of the tax year and all trades or businesses use the same tax year end.
- None of the trades or businesses is a specified service trade or business.
- The trades or businesses meet at least two of the following factors:

- They provide products or services that are the same or that are customarily offered together.
- They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
- They are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group.

Screen Code:  
N199

If any portion of the income or loss calculated on line 22 of Form 1065 is not trade or business income for QBI deduction purposes, open screen **N199** (available from the **Other Forms** tab of the **Data Entry Menu**), and allocate the portion of the item that should *not* be included on Schedule K-1, box 20, code Z.

NEW FOR  
2019

The BAN Statement B will be attached to each Schedule K-1 in returns with aggregated businesses.

Aggregated businesses will be reported in a single column of the Qualified Business Income Information worksheet (Wks QBI) with the “Aggregation” box at the top right of the Statement A marked.

**Multiple Aggregations**

It is possible to have more than one distinct aggregation group. To create a second aggregation, use another number in the **PBAN** fields of the second group. On the **PBAN** screen, press PAGE DOWN and include a description of the trade or business and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. Use the second PBAN for this group.

Aggregated entities are listed in a statement with partners’ Schedules K-1.

**Aggregation, BANs, and PBANs**

NOTE

Aggregation and the use of the **Business Aggregation Number (BAN)** fields is still under development. When programming and testing is complete, this functionality will be activated with a Drake Tax program update.

The PBAN (Potential Business Aggregation Number) functionality has been activated. See “Potential BANs” on page 43.

A partnership engaged in more than one trade or business *may* choose to “aggregate” (combine) multiple trades or businesses into a single trade or business. In Drake Tax, use the **Business Aggregation Number (BAN)** fields to put these businesses together into one group or “aggregation.”

IMPORTANT

Once a partnership aggregates a group of trades or businesses, the individual partners must abide by that aggregation. If the partners wish to choose their own aggregations, use the “Potential” Business Aggregation Number (PBAN) instead of the BAN. See “Potential BANs” on page 43 for more information.

A BAN works just like other “grouping” numbers in Drake Tax, such as multiform codes and passive activity numbers. Enter the same number in the **Business Aggregation Number (BAN)** fields of the different businesses in the 1120S return – such as on

screens **1, F, 8825, RENT, and 199A** – and all trades or businesses with the same BAN are aggregated. To create more than one aggregation group, use a different BAN for each separate group.

**NOTE** See “Associating One Screen with Another” in Chapter 3 of the *2019 Drake Tax User’s Manual* for more on using multiform codes.

### Using BAN Fields and Screen

If this partnership is engaged in more than one trade or business, and you determine that some of the separate businesses that are reported on this tax return qualify for aggregation, and the partnership *wants* to aggregate them, then enter the same number in the **BAN** fields of the different businesses in the 1065 return – such as on screens **1, F, 8825, RENT, and 199A**, then open the **BAN** screen (located on the **Other Forms** tab of the **Data Entry Menu**).

#### Screen Code: BAN

Enter the same BAN in the **Business Aggregation Number (BAN)** field on the **BAN** screen that you used for the other business that you are aggregating (on screens **1, F, 8825, RENT, or 199A**). Then, type in a name for the aggregated group. Finally, in text box **1** on the **BAN** screen, describe the relationship between the businesses and the factors met that allow the aggregation.

If there has been any change on the aggregation since the 2018 return, then, in text box **2** of the **BAN** screen, describe any changes in facts or circumstances that have occurred since the prior year relating to an existing aggregation of the trade or business. (See the field help for both text boxes **1** and **2** for more information.)

To qualify for aggregation, the businesses must meet certain requirements (described in Publication 535 and in the field helps on screen **BAN**).

**NOTE** Enter the same aggregation number in the **BAN** field on screen **1** as you did in the **BAN** fields of the other trades and businesses of the aggregation if you want this partnership aggregated with the other trades and businesses.

### Potential BANS

On their Individual (1040) returns, partners in this partnership have the choice to aggregate certain businesses into one entity for purposes of computing the Qualified Business Income Deduction (QBID). For that to happen, the partnership must tell the partners which trades or businesses *might* qualify to be aggregated. This is done by using the **PBAN** (“Potential Business Aggregation Number”) fields on screens **1, F, 8825, RENT, and 199A** and the **PBAN** screen, available from the **Other Forms** tab of the **Data Entry Menu**.

The **PBAN** works just like the **BAN** and other “grouping” numbers in Drake Tax, such as multiform codes and passive activity numbers. All forms with the same **PBAN** can potentially be aggregated. (Partners can choose whether or not to aggregate and which trades or businesses can be in the aggregation. See the “IMPORTANT” note on page 43.)

Enter this same number in the **PBAN** fields of every appropriate screen for each business on this return that potentially could be aggregated — including **1, F, 8825, RENT, and 199A**. (See “Reporting Section 199A Items” on page 39.) In Figure 9, this trade can potentially be aggregated with others also using the PBAN “3.”

The screenshot shows a tax software interface for screen 199A. The fields are as follows:

- For: 1120 (1120, K1P, K1F)
- Multi-form code: (1-999; 1 is assumed if left blank)
- EIN: 41-4141414
- Potential Business Aggregation Number (PBAN): 3 (circled in red)
- Business Aggregation Number (BAN): 1
- Trade or Business name: Partners in Grime
- Treat as a "specified service business"
- Ordinary business income (loss): 1111 SA
- Rental income (loss): 2222 SA

**Figure 9: BAN and PBAN fields on screen 199A**

Screen Code:  
**PBAN**

Complete screen **PBAN** (available on the **Other Forms** tab of the **Data Entry Menu**) for each potential aggregation of the trades or businesses. Enter the proper PBAN and provide an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. Use the same PBAN for the **PBAN** screen as on the other screens of this aggregation.

If there could be two or more potential aggregations, press PAGE DOWN for a fresh **PBAN** screen.

**NOTE**

If this partnership potentially qualifies to be aggregated *with* any other businesses on this 1065 return, enter the same number in the **PBAN** field on screen **1** as you did on screen **F, 8825, RENT, or 1099A** for the other trades or businesses.

Multiple trades or businesses can be aggregated into a single trade or business if they meet the following requirements:

- The taxpayer or a group of persons directly or indirectly own 50% or more of each trade or business for a majority of the tax year and all trades or businesses use the same tax year end.
- None of the trades or businesses is a specified service trade or business.
- The trades or business meet at least two of the following factors:
  - They provide products or services that are the same or that are customarily offered together.
  - They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
  - They are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group.

**Not  
Qualifying  
for QBI**

If any portion of the income or loss calculated on line 22 of Form 1065 is *not* trade or business income for QBI deduction purposes, open screen **N199** (available from the

**Other Forms** tab of the **Data Entry Menu**), and allocate the portion of the item that should *not* be included on Schedule K-1, box 17, code V.

NEW FOR  
2019

The BAN Statement B will be attached to each Schedule K-1 in returns with aggregated businesses.

Aggregated businesses will be reported in a single column of the Qualified Business Income Information worksheet (Wks QBI) with the “Aggregation” box at the top right of the Statement A marked.

### Multiple Aggregations

It is possible to have more than one distinct aggregation group. To create a second aggregation, use another number in the **PBAN** fields of the second group. On the **PBAN** screen, press PAGE DOWN and include a description of the trade or business and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. Use the second PBAN for this group.

Aggregated entities are listed in a statement with the partners’ Schedules K-1.

## Oil and Gas Depletion Worksheet

The **DEPL** screen is accessible from the **Other Forms** tab of the **Data Entry Menu**. Create a separate depletion worksheet for each oil or gas interest. (Press PAGE DOWN to open a fresh instance of the **DEPL** screen.) Enter data for cost depletion, percentage depletion, or for both. If data for both cost and percentage depletion is entered, the program does both computations and sends the one that gives the taxpayer the best deduction to the proper form or schedule. (Not all taxpayers have the option of using either method. Consult Publication 535 for additional information.)

The deductions from all of the worksheets are totaled and carried to the indicated form or schedule.

NOTE

The Depletion Worksheet (Wks DEPL) in the Partnership package is for informational purposes only. Depletion is calculated in the partner’s individual returns.

## Multiple Foreign Transactions

Screen Code: **KFT**

Information on foreign transactions are entered on a separate **KFT** screen, accessible from the **Foreign** tab of the **Data Entry Menu** or from the **Schedule K Foreign Transaction** link on the **Credits** tab of screen **K**. Through the **KFT** screen, you can report multiple foreign transactions. (Press PAGE DOWN for a new **KFT** screen.)

Drake Tax generates a “Foreign Transaction Statement,” shown as “WK\_FTRP~” in View/Print mode that lists all of the partnership’s foreign transactions. Separate Foreign Transaction Statements (“K-1 STM FTR”) are generated for each partner, reporting these foreign transactions.

## Business Activities Statement

A Business Activities Statement (screen **BAS**) allow you to break down a partnership’s Schedule K items by business activity. The amounts and totals from the **BAS**

screen do not flow anywhere in the partnership return but do provide statements (listed on View/Print mode of “Wks BAS”) you can use as a reference when transferring these amounts into the partner’s 1040 return. A K-1 statement by business activity is also provided for the partners, listed on View/Print mode of “K-1 Wks BAS.” (Figure 10).

Business Activity Statement				2019	
(Keep for your records)					
Partnership Name					EIN
<a href="#">Partners In Grime</a>					<a href="#">41-4141414</a>
Partner Name					SSN/EIN
<a href="#">William Carter</a>					<a href="#">400-00-6665</a>
ACTIVITY NAME(S)	<a href="#">Activity 1 - Restaurant</a>				
	<a href="#">Activity 2 - Gift shop</a>				
	<a href="#">Activity 3 - Museum</a>				
LINE REFERENCES	<b>1</b>	<b>2</b>	<b>3</b>	Unallocated	Sch K1 Total
1. Ordinary Business Income (Loss)	<a href="#">2,469</a>	<a href="#">4,444</a>	<a href="#">1,086</a>	<a href="#">1,736,046</a>	<a href="#">1,744,045</a>
2. Net Rental Real Estate Income (Loss)	See K1_8825				
3. Other Net Rental Income (Loss)	<a href="#">202</a>	<a href="#">404</a>	<a href="#">1,151</a>	<a href="#">(1,757)</a>	
5. Interest Income	<a href="#">404</a>	<a href="#">606</a>	<a href="#">384</a>	<a href="#">9,919</a>	<a href="#">11,313</a>
6a. Ordinary Dividends					
6b. Qualified Dividends					

Figure 10: A partner’s Business Activities Statement in the 1065 package

## Schedule K-1 for 1065 (Partner Information)

Use the **K1** screen to enter data for Schedule K-1, Partner’s Share of Income, Credits, Deductions, etc.

### Partner Type

In the **Type of Partner** section, select the box on line G to describe the partner as either a **General or LLC member-manager** or a **Limited or other LLC member** (default is **General**).

On line H1, select either **Domestic partner** or **Foreign partner** (default is **Domestic**).

On line H2, if the partner is holding the interest in the partnership as a disregarded entity (DE), enter the tax identification number (TIN) and name of the DE.

## NOTES

- Type the name and address of the beneficial owner of the disregarded entity item F of screen **K1**. If the partner is a DE, the TIN of the beneficial owner is entered, not that of the DE partner.
- For identity protection purposes, you can display only the last four digits of the TIN. Type 000-00, then the final four digits of the ID number. Press CTRL+F to “force” the program to accept the ID number.

From the line I1 “PARTNER type” drop list (Figure 11), choose the type of partner (not the type of partnership). If this box is left blank, the program uses the default selection of **Individual**.

If the partnership is an eligible foreign entity, mark the **B2** check box (Figure 11). See “Eligible Foreign Entity” on page 31. If the partner is a retirement plan (IRS, SEP, Keogh, etc.) mark the **I2** check box.

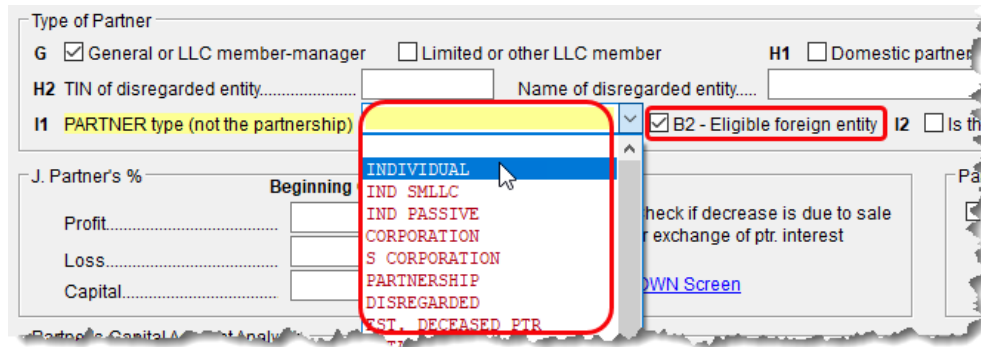


Figure 11: Line I1 - K-1 Partner Type

## Other Partner Information

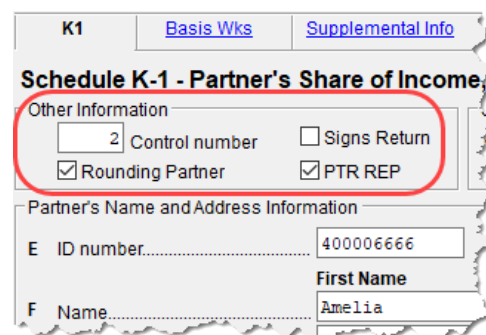
Besides the **PTR REP** check box (see “Partnership Representative” on page 29), the **Other Information** section of the **K1** screen offers a place to indicate which partner signs the return and which is the rounding partner. The **Control number** field gives you another sorting option. (See “Setting Sort Order of K-1s” on page 48 for more information.)

### Rounding Partner

Mark the **Rounding Partner** check box on screen **K1** (figure below) to select which should be the rounding partner who receive any balancing amount on Schedule K-1 when the return is calculated.

The **Rounding Partner** no longer is automatically sent to the end of whatever sort order you’re using. If you do not make a selection, the program designates as the rounding partner the first partner you entered.

If you select more than one rounding partner, the program generates a Return Note telling you that you’ve chosen more than one rounding partner, and also tells you which partners will be used as the rounding partner and which will be ignored.



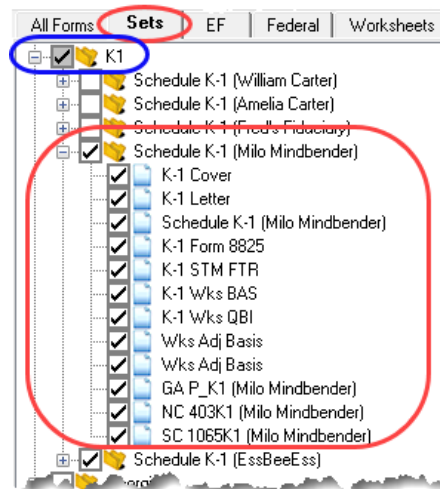
### Signs Return

If the partner described on this **K1** screen is the partner who signs the return for the partnership, mark the **Signs Return** check box (figure above), and a title for the signing partner in the **Title for PIN Signature** field (on line **E** of the screen). This partner’s information will not have to be re-entered on the **PIN** screen. (The **ERO PIN**,



the “sign’s return” partner’s **PIN**, and the **Signature date** fields must still be completed on the **PIN** screen for the return to be eligible for e-file.)

## Sorting and Viewing Schedules K-1



View a return with multiple Schedules K-1 and you will see, in the forms “tree” on the left side of the **View/Print** window (in Enhanced View), that each partner has a “K1” folder (blue circle in figure at left) containing Schedules K-1 and any other forms, worksheets, statements, and letters generated for that partner.

For those who print their K-1 forms from the **Sets** tab in View/Print mode, click the **Sets** tab and notice that each partner has a separate folder containing *all* generated federal and state K-1 schedules, forms, and worksheets, making it easier to print everything needed for the partner (figure left.).

Click the PLUS SIGN [+] to expand the folder to see all documents relating to that partner. Click the MINUS SIGN [-] to collapse the folder again.

### Setting Sort Order of K-1s

For convenience when dealing with partnerships that have a large number of partners, you can sort the list of Schedules K-1 by recipient’s name, ID number, ownership percentage, or by the **Control number**.

The default sort order (as seen in View/Print mode) is determined by the order in which the partners are entered in the program. To select a new sort order, go to the **PRNT** screen (available through the **General** or **Miscellaneous** tabs of the **Data Entry Menu**) and, from the **Sort K1s by** drop list, choose:

- **Control** – Sort by the **Control number** entered on each screen **K1** (See “Control Number,” following, for more.)
- **ID** – Sort numerically based on SSN or EIN of the partner
- **Name** – Choose to sort by first or last name and individual partners will be listed alphabetically by the name you choose. Partners that are businesses, estates, trusts, and tax-exempt organizations will be listed by the first letter of the first word or name in the **Entity name** line of screen **K1**.
- **Percentage** – Sort by the partner’s ownership percentage

### Control Number

The **Control number** is an optional number the preparer can use to identify and sort Schedules K-1. The number can contain up to five digits and decimals are allowed.



Schedules K-1 can be sorted in View/Print mode by the control number from the **PRNT** screen. The control number is printed at the top of the Schedule K-1.

## IMPORTANT

Drake Tax does not automatically “increment” the control number. You have to enter a unique number on each partner’s **K1** screen.

### Grid Data Entry for Screen K1

If you have your program set up to take advantage of grid data entry, you can easily enter amounts in many of the most-often used lines of a Schedule K-1. This method is particularly useful for partnerships with a lot of partners.

First, initiate grid data entry:

1. Return to the Drake Tax **Home** window.
2. From the menu bar, select **Setup > Options** to open the **Data Entry** tab.
3. Near the bottom of the left-hand column, select **Use grid data entry format on available screens**. Click **OK**.

Now, open a return, and from the **K-1 Information** section of the **General** tab, click **K1** to open the data-entry grid. To make entries in the grid:

1. Select a partner and click one of the fields where you wish to enter data.
2. Type information for that partner for that column.
3. Scroll across (or press the TAB key) to see more columns and make any entries needed.
4. Press the DOWN ARROW to make entries for other partners.
5. To open a partner’s **K1** screen and make any other entries, select the line and click **Item Detail** (or press F3).
6. To return to the grid, close the partner’s **K1** screen (or press F3).

## NOTES

- You can arrange the grid by **ID number**, by partner’s first or last name, by **Entity name** (for partners that aren’t individuals), or by the amounts in the columns of the grid by clicking the column headers.
- Press F3 to toggle back and forth between grid data entry and a data entry screen.
- Right-click the grid and choose to export to an Excel or CSV file or print the grid. You can also resize the font to make the grid easier to read.

### IRS K-1 Codes

A code sheet can follow the printing of each Form 1065 K-1 to help the taxpayer interpret the various codes used on Schedule K-1. To have this sheet printed with all K-1 schedules, from the menu bar of Drake Tax’s **Home** window, go to **Setup > Options > Form & Schedule Options** tab and mark the **Print Page 2 of Schedule K-1...** check

box. The codes can also be printed on a return-by-return basis by marking the applicable box on the **PRNT** screen. The code sheet is also available from **Tools > Blank Forms**.

**NOTE** Code sheets are now displayed in View/Print forms tree as “Schedule K-1 Code.”

Schedule K-1 may include asterisks with letter codes.

- An asterisk with a letter code indicates that multiple items have that code or that a statement is required for the code.
- An asterisk at the bottom of a group indicates that there are more items than can fit in the space provided for that group and a statement is attached or that the statement is required (as in the case of “other” amounts).

## Returns with Numerous Partners

For returns with a large number of partners, you have the option of deactivating calculation and printing of the K-1 schedules while working on Form 1065. This option, which eases the process of reconciling the 1065, is available by going to the **PRNT** screen and marking the applicable box under **K-1 Items to Suppress**.

**NOTE** After completing the K-1 entries for all partners, be sure to reactivate the calculation and printing of the K-1s from the **PRNT** screen.

## Partner Overrides

To override calculated amounts for the partners, you can either make changes on each **K1** screen or go to one of the **SA** screens for partner special allocations and make all changes there. For more information, see “Special Allocations” on page 35.

## Foreign Addresses

If the partner has a foreign address, enter the **Province/ State, Country, and Postal Code** information in the **Foreign ONLY** address line of the **Partner Name and Address Information** section of screen **K1** (along with the street address and city in the **Address** and **City** fields in section **F**.) Do not enter anything in the **State** or **ZIP** fields. Conversely, for a U.S. address, do not enter anything into the foreign address fields.

**NOTE** The **Foreign ONLY** fields are locked when a return is opened. Click one of the fields to unlock them throughout the return. To relock the unused **Foreign ONLY** fields, close and then reopen the return.

## Ownership Changes

All ownership change information is entered on the **OWN** screen, which is available from the **General** tab of the **Data Entry Menu**. To use the **OWN** screen:

- At the top of the screen, enter the date the profit, loss, or capital interest in the partnership was exchanged by two or more partners. If profit, loss, and capital are all involved in a transaction, put the date in the **Profit/Loss/Capital** field only. The **Loss** and **Capital** date fields are override fields, provided in case the loss or capital dates are different.
- In the **Change in Percentages** section, select the applicable partner from the drop list. (The drop list contains the names and ID numbers of all partners entered on a **K1** screen).
- Enter the percentage changes in profit, loss, or capital as positive amounts for increases and negative amounts for decreases. (See field-level help for more information.)
- To enter additional ownership changes, press **PAGE DOWN**.

**NOTE** See FAQ item “P” in the program for more information on entering ownership-change information.

**Printed Data** A Summary of Change in Ownership worksheet (“Wks POWN”) is generated when the return is viewed. The “Wks POWN” worksheet contains a list all partners and the ownership percentages and changes.

## K-1 Export

Take the following steps to export a Schedule K-1 to another return:

1. Ensure that K-1 data is entered in the *exporting* 1065 return and that the *recipient* return has been created in Drake Tax. (The **K1P** screen in the other return does not have to be created beforehand.)
2. In the *exporting* 1065 return, go to View/Print mode.
3. Click **K1 Export** in the View/Print mode toolbar. A list of SSNs that *cannot* be exported appears, if applicable. (The reason a K-1 is ineligible for export appears in the **Reason** column.) Click **Next**.
4. The **Export K1s** dialog box (Figure 12 on page 52) lists all client SSNs that can be exported. (To prevent a Schedule K-1 in this list from being exported, remove the check mark to the left of it.)



TIN	Name	Package
<input checked="" type="checkbox"/> 40-0001120	Ess Bee Ess	S Corporation
<input checked="" type="checkbox"/> 400-00-6665	William Carter	Individual
<input checked="" type="checkbox"/> 400-00-6666	Amelia Carter	Individual
<input type="checkbox"/> 40-0112011	Seay's Trucking	Corporate
<input checked="" type="checkbox"/> 811-11-1111	Fred's Fiduciary	Fiduciary

Figure 12: SSNs ready to be exported

5. Click **Export**. The K-1 data now appears on the partner's 1040 tax return.

## NOTE

Basis information for individual partners should be entered in the 1040 package in Drake Tax; this information cannot be exported from the 1065 package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

The K-1 Export feature can export K-1 data from partnership or fiduciary returns into the K-1 "source" screens (**K1P** and **K1F**) of the 1065 package.

An **Additional Entries** tab (Figure 13) offers 40 more fields for entering additional K-1 item.

Box/Code	Amount	Box/Code
11f06	1234	
11a	4321	

11a - Other portfolio income (loss)  
 11b - Involuntary conversions  
 11c - Sec. 1256 contracts & straddles  
 11d - Mining exploration costs recapture  
 11e - Cancellation of debt  
 11f01 - Sale of qualified prefer. stock of Fannie Mae or Freddie Mac  
 11f02 - Recoveries of tax benefit items (Section 111)  
 11f03 - Gambling gains(losses) subject to section 165(d) limits  
 11f04 - Disposition of int. in oil, gas, geo. or other mineral prop.  
 11f05 - Gains from disposition of farm recapture property  
 11f06 - Section 751(b) gain(loss)  
 11f07 - Specially allocate ordinary gain (loss)  
 11f08 - Gain (loss) from Sch D, line 7 or 15 - NOT portfolio income  
 11f09 - Deferred cancellation of debt income under Sec. 108(i)  
 11f10 - Gain from sale of QSB stock eligible for Sec. 1202 exclusion  
 11f11 - Gain from sale of QSB stock eligible for Sec. 1202 exclusion

Figure 13: Additional Entries tab of K1P screen featuring 40 additional drop lists and amount fields

## Supplemental Information

Two types of supplemental information can be added to Schedules K-1:

- Supplemental data for all K-1s in a return
- Supplemental data for a single K-1 in a return

To add supplemental information “globally” (to all K-1s) enter the information in the **Supplemental Information** block of screen **K1G**. Select **Global Supplemental Statement Information** from the **Select Type** drop list, then type in the information in the large text box below. The information appears in all partners’ Schedule K-1 Supplemental Information statements.

To add supplemental information to an individual K-1 statement, open a partner’s **K1** screen and click the **Supplemental Info** link at the top of the screen. In the **Supplemental Information** pane (Figure 14), enter information pertinent to the partner. The information appears in only that partner’s Schedule K-1 Supplemental Information statement.

**Figure 14:** In this example, the information entered on the **K1** screen appears on only partner Amelia Carter’s Schedule K-1 Supplemental Information statement.

## Item M Question

If the answer to Schedule K-1, item M (“Did the partner contribute property with a built-in gain or loss?”), is “Yes” for *all partners*:

1. On the **PRNT** screen, select **Yes** in the **Item M on Schedule K-1** section.
2. On screen **K1G**, select **K1M - Built in Gain Loss Statement** from the drop list, and type any supplemental information needed in the text box below.

If the answer is “Yes” for *some partners* but not others, use the individual partners’ **Item M** screens to report the supplemental information. The **Item M** screen is accessed by clicking the **8805/Item M** tab at the top of any partner’s **K1** screen. The supplemental information should list each property the partner contributed, the date the property was contributed, and the amount of the property’s built-in gain or loss.

## Partner's Adjusted Basis Worksheet

### NOTE

Basis information for individual partners should be entered in the 1040 package in Drake Tax; this information cannot be exported from the 1065 package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

Use the Partner's Adjusted Basis Worksheet (**Basis Wks** screen) to calculate a partner's new basis after increases or decreases are made to basis during the current year. A partner's adjusted (outside) basis refers to the partner's investment in a partnership. The basis is determined without considering any amount shown in the partnership books as capital, equity, or similar account. When a partner disposes of an interest in a partnership, the difference between the sale price and the adjusted basis is the taxable gain or loss.

The **Basis Wks** screen is accessible by clicking the **Basis Wks** tab at the top of the **K1** screen for a partner. (Access the **K1** screen from the **Data Entry Menu**.)

### NOTE

The Basis Worksheet ("Wks Adj Basis") is printed only when the option is selected on the **PRNT** screen.

### Annual Update of Partner Information

When the program is updated in 2020, the 2019 end-of-year basis and liability amounts are automatically updated to the 2020 beginning of the year amounts. Any loss or deduction carryover is updated to the beginning of the year and its character (ordinary loss, section 179 expense, charitable contributions, etc.) maintained.

### NOTE

If a **K1** screen is marked as **Final K-1**, none of the related screens for that partner is updated for the next year.

### Special Allocations

Use the **SA** screens to allocate liability, capital, and K-1 Part III (Income, Deductions, Credits, and Other Items) amounts to individual partners without having to enter the information into each K-1 separately. Amounts can be entered as dollar amounts or percentages. Calculations from the **SA** screens flow to the appropriate fields of each individual K-1.

For information on the **SA** screens, see "Special Allocations" on page 35.

### Section 754 Allocations

To allocate section 754 depreciation among specific partners:

1. Open screen **4562** for each asset for which you plan to allocate section 754 depreciation.
2. Select **754** from the **For** drop list at the top of each screen **4562**.
3. Open screen **K** and click the **Deductions** tab.
4. Click the **SA** link on line 13d, item W, "Section 754 depreciation..." line. (See "Special Allocations" on page 35 for details on using the **SA** screen.)

## Domestic Production Activities Deduction

The Domestic Production Activities Deduction (DPAD) has been repealed for tax years beginning after 2017, with limited exceptions. For those exceptions, the **8903** screen, used to complete Form 8903, Domestic Production Activities Deduction, is still accessible from the **Other Forms** tab of the **Data Entry Menu**.

## K-1 Cover Letters

K-1 cover letters can be produced to accompany each Schedule K-1 in a return. You can set up the global option to produce K-1 cover letters for all returns containing K-1 schedules, or you can choose the option on a per-return basis.

### Producing Letters for All Returns

To have the K-1 cover letters produced automatically with all applicable returns, from the **Home** window menu bar of Drake Tax, go to **Setup > Options > Client Communications** tab and mark the box labeled **Include K-1 letter with returns**. Click **OK**, then open a return.

Screen Codes:  
**COMM** or **K1L**

The signature used on the letter flows from the **PIN** screen. You can override this name on the K-1 letters by going to the **K1L** screen (also the **COMM** screen, both available from the **Miscellaneous** tab of the **Data Entry Menu**) and, in the **K-1 Cover Letter** section at the bottom of the screen, entering a name and title of the person's signature you wish to use.

## NOTE

The program uses the name of the partner who signs the return (selected as the **Signs return** partner on the **K1** screen) as the signatory of the K-1 letter. Override this name with entries on either the **PIN** screen or **COMM** (or **K1L**) screen. The **COMM** screen entries override entries from either the **PIN** screen or the **K1** screen.

### Editing the K-1 Letter

As with other letters provided by the program, you can edit the text to suit your office needs and style.

## TIP

Review the following sections of the *2019 Drake Tax User's Manual* before making changes to letter templates:

- "Introduction to Letters in Drake Tax" in Chapter 2, Installation & Setup
- The "Letter Keywords" section of Appendix B, Keywords

To edit the text of the K-1 letter:

1. From the **Home** window menu bar, select **Setup > Communications Editor**. The **Client Communications Editor** is displayed.
2. Select **Open > Partnership > Partnership K1 Cover Letter** to view the template of the partnership K-1 letter.
3. Make any desired changes to the template.

**4. Click Save.****NOTE**

For an amended return, the K-1 letter automatically refers to the amended Schedule K-1. To edit the letter for an amended K-1, from the Client Communications Editor toolbar, select **Open > Partnership > Partnership K1 Amended Letter** and follow steps 3 and 4 of the previous procedure.

**Other K-1 Letter Options**

By default, the *partnership's* name and address appear in the letterhead of the K-1 cover letters, the information flowing from screen **1**. (This assumes you first went to **Setup > Communications Editor > Setup > Page Layout** and selected the **Use letterhead on letters** box; otherwise, no header would be printed.)

Screen Codes:  
**COMM** or **K1L**

(*optional*) To have your *firm's* contact information and logo printed in the letterhead of the K-1 cover letters, go the **COMM** screen (available from the **Miscellaneous** tab of the **Data Entry Menu**), and from the **Information on the K-1 coversheet...** drop list at the bottom of the screen, select **F - Print firm info/logo**.

(*optional*) To prevent the partnership's or the firm's name and address from appearing in the header of the K-1 letter, select **X - Do not print entity or firm info** from the **Information on the K-1 coversheet...** drop list at the bottom of the **COMM** screen.

Once the required signing information has been selected, a K-1 cover letter will be generated for each partner receiving a Schedule K-1.

To change the firm's letterhead information, from the **Home** window menu bar, select **Setup > Communications Editor**. Select **Open > Partnership > Letterhead (all packages)** and make whatever changes you wish. Click **Save**.

**NOTE**

Changes made to the letterhead affects the letterhead for letters in all packages.

**TIP**

For more on working with letterheads, see "Setting Up Letterheads, Logos, Footers, Margins, and Borders" in Chapter 2 of *2019 Drake Tax User's Manual*.

**Schedule L (Balance Sheets Per Books)**

Schedule L and Schedule M-2 reconciliation totals are displayed on screens **L** and **M2** to facilitate reconciliation of the balance sheet (item #1 in Figure 15 on page 57).



**Schedule L - Balance Sheet**

Entries on lines 6, 8, 13, 17, and 20 require use of the SCH2 screen for details. The amounts from that screen flow to the appropriate lines when the return is calculated. The partners' capital account can be balanced automatic; however, it is also used as the balancing account. If an amount is entered, it is compared with the computed amount. If no amount is entered, no checking is done, and the balance sheet is forced to balance by the program.

Autobalance can be turned off from the PRNT screen. **4** [Force-print Schedule L and M-1](#)  Force-print final end of year **2**

	Beginning of Year		End of Year		
	(a)	(b)	(c)	(d)	EOY Totals
<b>1</b> Cash.....			34343	54321	54321
<b>2a</b> Trade notes and accounts received.....					
<b>2b</b> Less allowance for bad debts.....	12345	( 12345 )			
<b>3</b> Inventories.....			7654	12121	12121
<b>4</b> U.S. Government securities.....			12345		
<b>5</b> Tax-exempt securities.....			21212	22222	22222
<b>6</b> Other current assets.....			3456	2644	2644
<b>7a</b> Loans to partners.....				2345	2345
<b>7b</b> Mortgage/real estate loans.....				6543	6543
<b>8</b> Other investments.....					
<b>9a</b> Depreciable assets.....			712233		714233
<b>9b</b> Accumulated depreciation.....		( 38404 )			( 64504 )
<b>10a</b> Depletable assets.....					
<b>10b</b> Accumulated depletion.....					

**Figure 15: Beginning- and End-of-Year totals displayed on L screen (#1); force-printing end-of-year totals (#2); link to SCH2 screen (#3); force-printing Schedule L and M-1 (#4)**

Note that the totals from the balance sheet's subsidiary schedule (**SCH2 screen** link, item #3 in Figure 15) also appear in the **BOY Totals** and **EOY Totals** columns of the L screen.

If you make any changes to the data, recalculate the return (press CTRL+C) for those changes to be displayed on the screen.

**TIP** To speed up calculation of returns that contain multiple states, open screen **1** and select **0** from the **Resident state** drop list.

Schedule L is *not* required if:

- The partnership's total receipts for the tax year were less than \$250,000
- The partnership's total assets at the end of the tax year were less than \$1 million
- Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return
- The partnership is not filing, and is not required to file, Schedule M-3

If the partnership meets *all four* of these conditions, go to screen **B** and select **Yes** for line 4. Because Schedules L, M-1, M-2, and section L of Schedule K-1 are not required, they will not be generated with the return. To force the program to generate these items, click the **Force-print Schedule L and M-1** link on the L screen (see item #4 in Figure 15) to open the **PRNT** screen. In the **Items to Print** section, select **Force Schedules L, M-1, M-2, & K-1 Section L**.

If *any* of the four conditions is *not* met, select **No** for line 4 on screen **B**. Schedules L, M-1, M-2, and Item L of Schedule K-1 are required and will be generated with the return.

### Print End of Year Totals

If the **Final return** check box is marked on screen **1**, you can select the **Force-print final end of year** check box (see item #2 in Figure 15 on page 57) to keep the program from “zeroing out” the end-of-year totals.

### Print Section L

You can “force” the program to generate the K-1 section “L” information without generating any unnecessary Schedules L, M-2, and M-2.

From the **PRNT** screen (available from the **Miscellaneous** tab of the **Data Entry Menu**), select **Force Schedule K-1 Section L only** and any available data is generated in the “L” section, “Partner’s Capital Account Analysis,” of Schedule K-1 (Figure 16).

Partner's Capital Account Analysis	
	Tax Basis Capital
Beginning capital account . . . . .	\$ (83,737)
Capital contributed during the year . . . . .	\$
Current year net income (loss) . . . . .	\$ 1,757,478
Other increase (decrease) (attach explanation) . . . . .	\$
Withdrawals & distributions . . . . .	\$ ( )
Ending capital account . . . . .	\$ 1,673,741

Figure 16: Section L information on Schedule K-1

## Flow of Information

Many entries made elsewhere on the return (for example, inventory information on screen **A**) flow to the generated Schedule L of Form 1065. Depreciable asset information, intangible assets, and amortization from the **4562** screen also flow to Schedule L.

Direct entries on screen **L** include beginning- and end-of-year **Cash, Trade notes and accounts received, bad debts, U.S. government securities, tax exempt securities, loans to partners, mortgage/real estate loans, depletable assets, and accumulated depletion**. Other Schedule L data not entered on screen **L** comes from the partnerships’ income statement, balance sheet, and equity and capital accounts.

## Force-Printing Final End-of-Year Totals

Normally, if you mark **Final** on screen **1**, indicating that this as a final-year return for a partnership, Drake Tax “zeros out” the **EOY Totals** column of Schedule L. Mark the **Force-print final end of year** check box on screen **L** (see item #2 in Figure 15 on page 57) to display those totals in the **EOY Totals** column.

## The SCH2 Screen

The **SCH2** screen is used to provide detailed information required by the IRS for certain lines on Schedule L. This screen can be used in place of the actual **L** screen in

Drake Tax. In other words, if you use this screen for all applicable lines on Schedule L, you *do not* need to make any entries on the L screen.

To create a statement for a line, select the line from the drop list (see Figure 17) and enter descriptions and their corresponding amounts. Once the information is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen.

## NOTES

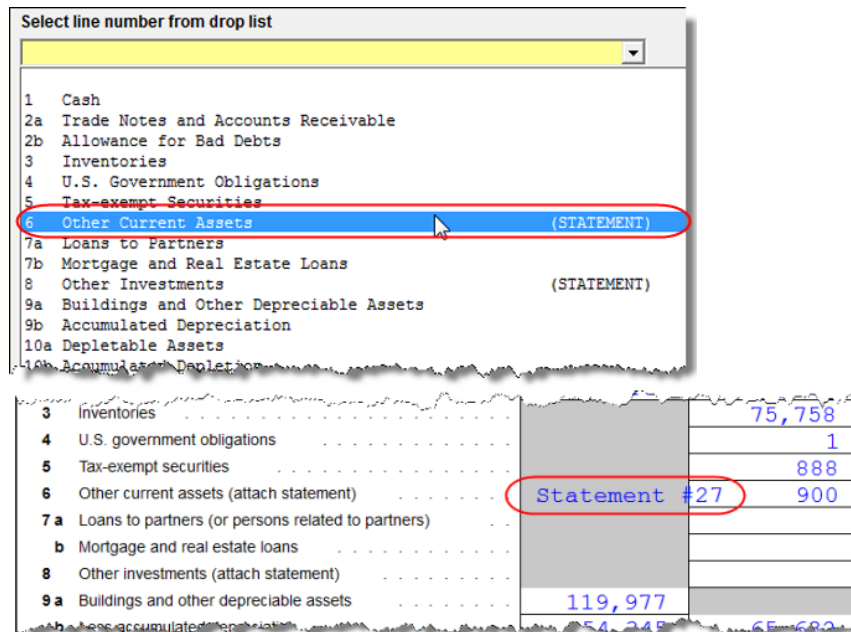
All line selections are carried to the next-year program when the return is updated. Screen descriptions are updated, with the year-end amounts from one year carried to the beginning-of-year column of the next year.

To access the **SCH2** screen from the L screen, click the **SCH2 screen** links on lines **6, 8, 13, 17, or 20** (or click inside a field and press CTRL+2).

### Statements

The total amounts entered on the **SCH2** screen do not appear on the L screen in the program. They are, however, printed on the return where applicable, with references to the corresponding statements.

Note that an e-fileable “STATEMENT” is referenced in the return (Figure 17).



**Figure 17:** Data entered as “Other Current Assets” from the drop list on screen **SCH2** will be included as an e-fileable statement and referenced on the applicable line of the return.

### SCH2 and Trial Balance

Typically, one or more **SCH2** detail screens are needed for Schedule L items. If using Drake Tax’s trial balance import feature, be aware that **SCH2** data cannot be entered directly into the trial balance worksheet, as it cannot be imported into the data entry. **SCH2** detail screens must be created apart from the trial balance worksheet.

When the return is produced, Schedule L reflects the amounts imported from the trial balance worksheets (where direct entry was allowed). For more information, see "SCH2 Detail" on page 88.

## Autobalance

Autobalance forces Schedule L to balance for both the beginning- and end-of-year amounts. The program adjusts the capital account on Schedule L by the difference between the total assets and the total liabilities and capital *before* the adjustment.

(Example: If Assets = \$1,000 and Liabilities and Capital = \$900, the program increases the partners' capital accounts by \$100.)

To deactivate this feature for a specific return, go to the **PRNT** screen and select **Turn off autobalance**.

## Schedule M-2 (Analysis of Partners' Capital Accounts)

Schedule M-2 is used to show what caused changes during the year in the partners' capital accounts. The amounts on Schedule M-2 should equal the total amounts reported in item L of all the partners' Schedules K-1.

Amounts entered for item **L** in the **Partner's Capital Account Analysis** section on the partners' **K1** screen of Drake Tax flow to Form 1065, Schedule M-2, line 1, "Balance at beginning of year."

## Schedules M-1, M-3 (Reconciliation of Income)

Schedule M-1 is required if the balance sheet's total assets at the end of the year are greater than \$250,000. Page 1 of Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 million, and Schedule M-1 and pages 1-3 of Schedule M-3 are required if the total assets equal or exceed \$50 million.

### Schedule M-1

Schedule M-1 shows all items of income and expense that are not subject to tax, plus those accounting items that are not income tax items. When required, taxpayers must reconcile book income with the taxable income.

Use the **M1** screen to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as *permanent* or *temporary*, and as *favorable* or *unfavorable*, as described in Table 2:

**Table 2:** Examples of Book-to-Tax Difference for Schedule M-1

Difference	Description	Examples
Permanent	Book or tax items that will never be reported for book or tax purposes	- Meals & entertainment limitations - Penalties - Tax-exempt interest

**Table 2:** Examples of Book-to-Tax Difference for Schedule M-1

Difference	Description	Examples
Temporary	Items that will be reported for both tax and book purposes, but not during the same tax year	- Depreciation - Gains or losses on the sale of depreciated assets
Favorable	Items that reduce taxable income	- Instances in which tax depreciation amount is greater than book depreciation amount
Unfavorable	Items that increase taxable income	- Disallowed meals & entertainment

**“Other” Adjustments**

Open the **Schedule M1 Other Adjustments** screen to make adjustments to Section L, “Partner’s capital account analysis,” of the partners’ Schedule K-1. To open the **Schedule M1 Other Adjustments** screen, click a blue **Other** link (circled in Figure 18) on lines 2, 4, 6 or 7 of screen **M1**.

**Figure 18:** Other screen links from screen **M1**

On the **Other** screen, enter a **Description** and an **Amount** and close the screen. When you calculate the return, the amounts entered on the **Other** screens have adjusted Section L of the Schedules K-1.

If you enter an amount in the line 2, 4, 6, or 7 override fields on screen **M1**, and enter that amount again on the **Other** screen, the amounts will be *added* and the *total* will flow to Schedule M-1. (Only the amount entered on the **Other** screen affects Section L of Schedule K-1, however.)

**NOTES**

To allocate these adjusted amount to the partners, click the **SA** link on the right side of the **Amount** field on the **Other** screen. For more on using the Special Allocation (**SA**) screens, see “Special Allocations” on page 35.

**Depreciation and Amortization Adjustments**

The program may make an adjustment for book-to-tax depreciation differences. The calculation is done with the following steps. (This procedure refers to “depreciation” throughout, but it applies for either depreciation or amortization.)

1. The amount reported on Schedule L “Beginning of Year” accumulated depreciation (line 9b, column a) (line 10b is “accumulated depletion”), is subtracted from

the “End of Year” accumulated depreciation (line 9b, column c). This is the “book” depreciation amount.

2. This “book” depreciation amount is compared to the “tax” depreciation amount. (The “tax” depreciation amount is the depreciation amount reported on the return, including any section 179 amounts).
3. The differences between the “book” and “tax” depreciation amounts are carried to the appropriate form and line.
  - If the “book” depreciation amount is greater than the “tax” depreciation amount, the difference is carried to either:
    - Schedule M-1, line 4a
    - Schedule M-3, Part III, line 25, as a negative amount
    - Form 8916-A, line 2(L), as a negative amount for assets selected on the **4562** detail screen for COGS
  - If the “tax” depreciation amount is greater than the “book” depreciation amount, the difference is carried to either:
    - Schedule M-1, line 7a
    - Schedule M-3, Part III, line 25, as a positive amount
    - Form 8916-A, line 2(L), as a positive amount for assets selected on the **4562** detail screen for COGS

## Schedule M-3

The **Schedule M-3** section of the **Data Entry Menu** includes direct access to the various **M3** screens (Figure 19).

Schedules M	
M1	Reconciliation of Income
M2	Partners' Capital
Schedule M-3	
M3	Part I
M32	Part II
M33	Part III
C	Schedule C for M-3 Filers
M3S	Part I Supplemental Statements
SCH3	Subsidiary Schedule
8916	Supplemental Attachment

**Figure 19: Data Entry Menu** for M and M-3 schedules

If a domestic partnership reports on Form 1065, Schedule L, that its total assets at the end of its tax year equal or exceed \$10 million (or that its gross receipts equal or exceed \$250,000), it must complete and file Schedule M-3 instead of Schedule M-1.

## NOTES

The program calculates total assets based on IRS requirements. For more information, see the Adjusted Total Assets Worksheet produced with the return and available in View/Print mode.

Some calculated amounts flow automatically to M-3; some data must be manually entered on the **M3** screen. Review all amounts on the M-3.

Parts II and III of Schedule M-3 reconcile financial statement net income (loss) for the tax return (per Schedule M-3, Part I, line 11) to net income (loss) on Form 1065, page 5, “Analysis of Net Income (Loss),” line 1.

## IMPORTANT

The program does not autobalance Schedule M-3. Additional data entry is required on screen **M32**, line 25, to reconcile with the analysis of net income.

If the partnership is required to file (or voluntarily files) Schedule M-3, the partnership *must* file Form 1065 and all attachments and schedules, including Schedule M-3. Additional information could be required on the **8916** and **SCH3** screens.

## Force-Printing Schedule M-3

Page 1 of Schedule M-3 is required if the balance sheet’s total assets at the end of the year equal or exceed \$10 million, and pages 1-3 of Schedule M-3 are required if the total assets equal or exceed \$50 million. If the corporation’s assets do not equal or exceed \$10 million but you want to voluntarily file Schedule M-3, or if the corporation’s assets do not equal or exceed \$50 million and you wish to file the complete M-3, go to screen **M3** and make a selection from the **Force print schedule M-3** drop list. Choose to print just page 1 of Schedule M-3 or the complete M-3.

See “Schedules M-1, M-3 (Reconciliation of Income)” on page 60 for more details on these schedules.

### SCH3 Screen

The **SCH3** screen is used to provide detailed information required by the IRS for certain lines on Schedule M-3 (or Form 8916-A). This screen can be used in place of the actual **M3** screen in Drake Tax. In other words, if you use this screen for all applicable lines on Schedule M-3 or Form 8916-A, you *do not* need to make any entries on the **M3** and **8916** screens. The total amounts entered on the **SCH3** screen do not show up on the actual **M3** and **8916** screens in the program; those amounts are printed, however, on the return, as applicable, with references to the corresponding statements.

To create a statement for a line, select the desired line from the **Select line number from drop list** on screen **SCH3**, then enter descriptions and their corresponding amounts. Once the information is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen (make the same selection from the **Select line number... drop list**.)

## NOTE

All line selections flow to the next-year program when the return is updated.

As with the **SCH2** screen, the type of statement produced by the program depends on the line selected on the **SCH3** screen and the IRS requirements. See “The **SCH2** Screen” on page 58 for more information on how to use the **SCH3** screen.

### Allocating M-3 Items

The **SA** links on screens **M32** and **M33** (Parts II and III) for Schedule M-3 allow you to allocate to the partners any Temporary Differences and Permanent Differences for income items (screen **M32**) and expense items (screen **M33**).



As with most of the **SA** links in the program, to use these **SA** links, you must first enter data on the screen, then save (close) the screen. Reopen the screen, and click the **SA** link to open the **Special Allocations** dialog box for the line you selected.

See “Special Allocations” on page 35 for details on using the **SA** links.

## Rental Activities

**Screen code: 8825** Income and expenses for rental real estate properties appear on Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. To make entries in Drake Tax, use the **8825** screen, available from the **Other Forms** tab of the **Data Entry Menu**. (Grid data entry is available. See “Grid Data Entry for Screen K1” on page 49 for details on using this feature.)

If there are multiple 8825 properties, press PAGE DOWN for a new **8825** screen. Use one screen per rental property. If a return has more than one **8825** screen, the program reports each property’s information on a separate column of Form 8825. Data from all **8825** screens are transmitted to the IRS when the return is e-filed.

**NOTE** Special steps are required if using the trial balance worksheet for multiple rentals. See “Rental Expenses” on page 89 for more information.

## Line 14, Depreciation

If the program is calculating depreciation (entered on the **4562** screen) for the property listed on the 8825, do not enter the depreciation on the **8825** screen. Depreciation should be entered only if it is figured outside of the Drake Tax program, and then the net results should be entered on screen **8825**. Line 14 of the **8825** screen is an adjustment field: any amount entered on line 14 is added to the depreciation calculated from the **4562** screens.

**NOTES**

- For assets placed in service during the year, Form 4562 is required.
- Drake Tax produces one Form 4562 for each *property* on Schedule E and Form 8825 instead of one 4562 *per* Schedule E or 8825.

### Information Flowing to Form 8825

To indicate that the information should flow to Form 8825, select **8825** from the **For** drop list on screen **4562** (Figure 20). If there are multiple **8825** screens, use the **Multi-form code** box. For information on using the **Multi-form code** box, see the 2019 *Drake Tax User’s Manual*.

DRAKE 2019 - Data Entry (414141414 - Partners In Grime) - (CONTAINS SENSITIVE DATA) -

**Form 4562**

[Video: Group Sales](#)

[Video: 4562 Import](#)

For: 8825 1965, COGS, F,8825, RENT, 754

Multi-form code: 3 (1-999; 1 is assumed if left blank)

Date

**Figure 20:** In this example, the program sends the **4562** information to the third **8825** screen created.



Any depreciation information entered on the **4562** screen flows to the correct Form 8825, based on the form and multi-form code selections at the top of the **4562** detail screens.

## IMPORTANT

When selecting a multi-form code, note that the code should refer to an **8825 screen**—not the **8825 form**. For example, data from the third **8825 screen** is generated on the first **Form 8825**. To associate an asset with that information, you would type a “3” for the screen (not a “1” for the form) in the **Multi-form code** box. For more information on Form 8825, see “Viewing Rental Activity Information” on page 66.

### Information Flowing from Form 4797

If the corporation sold rental property, and screen **4797** is completed, data flows from Part II, line 17 of Form 4797, to the first Form 8825, line 19, “Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities.”

## Line 15, Other Expenses

For rental properties with an “other” expense (line 15 of Form 8825), enter the amount of guaranteed payments, health insurance payments, and meals in the appropriate fields of the **8825** screen (see figure on next page). For rental properties with expenses not listed, enter those amounts in the **Additional other expenses** field. (An entry in this field opens a Detail Worksheet. Enter a description in the **Description** field and an amount in the **Amount** field.) The shaded field indicates a worksheet was entered.

The image shows a screenshot of the 'Form 4562' software interface. It features a list of input fields for 'Other Expenses' on line 15 of Form 8825. The fields are: 'Guaranteed payments: Services.....', 'Capital.....', 'Health insurance payments.....', 'Meals (subject to 50% limit).....', and 'Additional other expenses.....'. Each field has a corresponding input box to its right. The 'Additional other expenses' field and its input box are highlighted with a red background, indicating that a worksheet has been entered for this category.

Totals from the worksheet flow to Form 8825, and a statement from each property is printed with the return and transmitted to the IRS when the return is transmitted.

Enter rental income the partnership receives on a Schedule K-1 on the **K1P** screen. This amount flows to Form 8825, lines 20a and 20b. No entry is required on the **8825**.

## NOTE

- Entries in the “Guaranteed payments” field and “Health Insurance payments” field on line 15 do not flow to line 10 of Form 1065 but do flow to Form 8825 and adjust the amounts on lines 2 and 4 of Schedule K.
- *New for 2019:* Be sure to take note of the “Services” and “Capital” fields on the “Guaranteed payments” line. These amounts are now reported separately on Schedule K-1.

## Qualified Business Income on Screen 8825

If this rental activity is a trade or a business, select “Yes” from the **This activity is a trade or business** drop list in the **Qualified Business Income (QBI)** section of the **8825** screen. For a possible aggregation of business for the partners’ individual returns, type an appropriate number in the **Potential Business Aggregation Number** field. For more information on using these fields, see “Passing Through QBI Information” on page 37 and “Aggregation and PBANs” on page 41.

**NOTE** The **This activity is a trade or business** drop list is a required field and must be answered for each 8825 activity.

## Viewing Rental Activity Information

Rental activity data is reported on the 8825 forms and accompanying statements.

- **8825 Forms** — Form 8825 can contain information for up to eight rental activities. If more than four rental activities are entered, a second page of Form 8825 is generated. If more than eight rental activities are entered, a second Form 8825 is created (figure at right).
- **8825 Statements** — Statements are titled “Statement 8x,” (or “STM 8X, depending on your Setup options) where “X” equals “A” to “H” for the first Form 8825. (For example, the statements for the first and second 8825 screens would be labeled “Statement 8A” and “Statement 8B,” respectively.) (See Figure 21, below.)

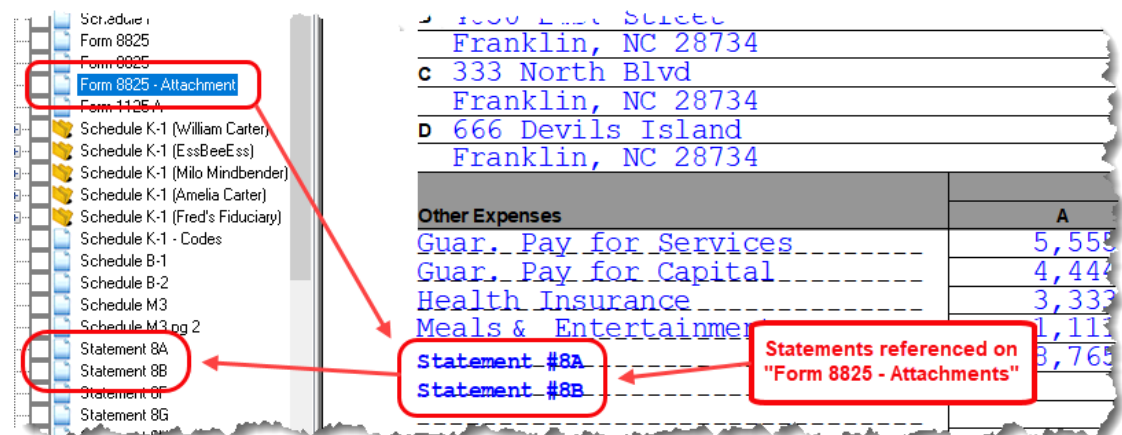
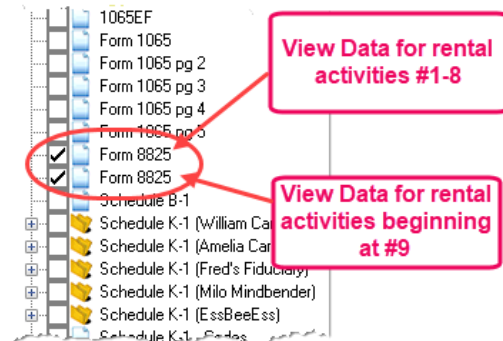


Figure 21: 8825 statements and attachments

## Self-Employment Income

If **Mark this box to include in self-employment income** is selected at the top of the **8825** screen, the amounts from the **8825** screen are included in the calculation for line 14a of Schedule K and flow to each K-1. Self-employment calculations are shown on the “Wks Sch K” worksheet generated with the return.

## Royalties Worksheet

When income and expenses from royalties are listed on screen **8825** (and **Royalties** is selected from the **Type of property** drop list), Drake Tax generates the Royalty Worksheet (“Wks PROY” in View/Print mode), along with a K-1 Royalty Worksheet (“Wks K-1 PROY”) for each partner.

When a 1065 return is viewed, instead of the royalties income and expenses flowing to box 2, “Net rental real estate income,” of Schedule K-1, gross royalties flow to Schedule K, line 7, “Royalties,” and expenses to Schedule K, line 13d, “Other deductions.” These amounts are also on the Royalty Worksheet. Form 8825 is not generated unless it is otherwise needed.

## Form 8997, Initial and Annual Statement of QOF Investments

An investor in a qualified opportunity fund (QOF) uses Form 8997 to inform the IRS of the QOF investments and deferred gains held at the beginning and end of the current tax year, as well as any capital gains deferred and invested in a QOF in the current year, and QOF investments disposed of during the current tax year. When an investor acquires or sells the investment, it must also be reported on Form 8949, Sales and Other Dispositions of Capital Assets.

Find screen **8997** on the **Other Forms** tab of the **Data Entry Menu**.

### Reporting QOF Investments

From the **Part** drop list on screen **8997**, select which part you are completing:

- Part I: Used to declare the partnership’s QOF investments held at the beginning of the current tax year.
- Part II: Used to report the partnership’s capital gains for the current tax year that were deferred by investing in a QOF.
- Part III: Used to report the partnership’s QOF investments disposed of during the current tax year.
- Part IV: Used to report the partnership’s QOF investments held at the end of the current tax year due to current-year capital gain deferrals and prior tax years’ deferrals.

For each investment, enter the EIN of the QOF, along with the date the QOF investment was acquired, a description of the interest acquired, and the amount that was short-term deferred gain and long-term deferred gain.

Mark the check boxes at the bottom of the screen as appropriate.

Press PAGE DOWN to open a fresh screen and make another selection from the **Part** drop list.

## QOF Investments

There are special rules for eligible gains invested in Qualified Opportunity Funds.

**Form 8996** A partnership files Form 8996, Qualified Opportunity Fund, annually to report that the QOF meets the 90% investment standard of section 1400Z-2 or to figure the penalty if it fails to meet the investment standard

In Drake Tax, screen **8996** has been added for completing Form 8996. Screen **8996** is available from the **Other Forms** tab of the **Data Entry Menu** or through a link on line 15 of screen **B**.

**Part I** certifies that the partnership was organized to operate as a QOF. Part II determines whether the partnership meets the 90% investment standard for a QOF. Entries in **Part IV** calculate any penalties for each month that the QOF did not hold at least 90% of its assets in QOZ property.

Complete Parts I, II, IV on screen **8996**. Click the link at the bottom of the screen to complete **Parts V and VI**.

**QOZ Tract Numbers** (*New for 2019*) On the **Parts V and VI** screen, select the form part to which data entered in this screen should flow. In the **QOZ Tract No.** column, enter the designated 11-digit census tract number. (To find this tract number, go to [irs.gov/pub/irs-drop/n-18-48.pdf](https://irs.gov/pub/irs-drop/n-18-48.pdf) for a list of Designated Qualified Opportunity Zones, listed by state and county.

See Form 8996 and its related instructions for more information.

## Credits and Adjustments

Certain credits require an adjustment to either income or expenses. Drake Tax carries the required adjustments to the appropriate line of the return and to Schedule M-1.

**NOTE** No adjustment is carried to Schedule M-3 automatically.

Manually reducing the expenses/deductions or increasing the income for these credits causes the return to be out of balance.

## Extender Tax Credits Revived

Certain “extender” tax credits have been revived for 2019. In fact, these extenders are retroactive, so taxpayers who were unable to claim these credits in 2018 are now eligible for to file amended returns.

Adjustments are made to other income for the credit amounts for the following credits:

- Form 5884, Work Opportunity Credit
- Form 6765, Credit for Increasing Research Activities

- Form 8820, Orphan Drug Credit
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
- Form 8881, Credit for Small Employer Pension Plan Startup Costs
- Form 8912, Credit to Holders of Tax Credit Bonds
- Form 8941, Credit for Small Employer Health Insurance Premiums

## Employer Credit for Paid Family Medical Leave

Screen Code:  
**8994**

The Family Medical Act credit is available in all Drake Tax packages, using Form 8994, Employer Credit for Paid Family and Medical Leave. Click the **8994** link on the **Credits** tab of the **Data Entry Menu** to open screen **8994**.

## Elections

The ability to make certain tax elections is included in the Partnership package. Elections are made and described on the **ELEC** screen (Figure 22 on page 70).

## Making an Election in Drake Tax

Screen code:  
**ELEC**

To indicate that the partnership is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. Make a selection from the **Election** drop list.
3. Complete all other fields as applicable. Press F1 in any field to learn if that field is required for your selection and the type of information that may be needed. For example, the help text for the **Date or year-ending** field (Figure 22 on page 70) shows that the field is required only for election options 08, 11, 13, 15, and 21, and it explains what, specifically, should be entered for each of these elections.

**Elections**

Election..... 08 - Carryback Casualty Loss (sec 1)

Description.....

Cost, basis, amount, years..... 1234

Date or year-ending.....

Other cost, basis, or amount.....

Other date or year-ending.....

City.....

County.....

State.....

Other information.....

Explanation.....

Drake Software - Data Entry - Help

**Date or Year Ending (direct entry)**

Enter the date or year-ending required for the selected election.

The description field is used on the following election statements for this package:

STM #	Use:
08	Date of Disaster
11	Date Paid or Incurred
13	Agreement date
15	Date Payment Received
21	Signature Date

**Figure 22:** Help text for **Date or year-ending** field on **ELEC** screen

To open a new **ELEC** screen for an additional election, press PAGE DOWN.

## NOTE

If the election option you selected is not listed in the help text for a field, then that field should be left blank. For example, if you chose election 01 (General Election Statement), you would not need to enter anything into the **Date or year-ending** field (help text in Figure 22).

## Election Statements

Once an election is made and the return is calculated, the election information is produced on a statement referenced “Statement EL XX,” where “XX” is the number of the election. For example, election 01 (General Election Statement) is generated as “Statement EL 01.”

The election statement includes the election title, election wording, and any additional information required for the election, such a date, amount, or location.

Entries for certain fields are sometimes included in the actual election statement; other times, they are included as separate lines. Signature lines are printed as needed on some statements.

## Safe Harbor Elections

A **Building qualifies as Section 1.263...** check box on screen **4562** applies a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election

statement is produced and the building description as entered in the **Description** field are included in the election statement (see Figure 23).

**NOTE** This Safe Harbor election covers buildings only.

This Sec. 1.263(a) - 3(n) Election can also be made from the **ELEC** screen, as can a Sec. 1.263(a) - 1(f) de minimis safe harbor election.

See IRS Reg. section 1.263(a)-3(h), IRB 2013-43, Rev. Proc. 2014-16, and Rev. Proc. 2015-14 for guidance.

Election statements are generated with the return (Figure 23).

ELECTIONS		2019
Partners In Grime		SSN/EIN
Section 1.263(a)-3(h) Safe Harbor Election for Small Tax		
NAME: Partners In Grime		
ADDRESS: 1234 Main Street, Franklin, NC 28734		
SSN/EIN: 41-4141414		
ELECTION: The amounts paid for repairs, maintenance, improv similar activities performed on the eligible building(s) de qualify under the safe harbor provided in Reg. Section 1.263		
DESCRIPTION: Warehouse Garage storage		

**Figure 23:** Election statements, including Safe Harbor election

See IRS Reg. section 1.263(a)-3(h), IRB 2013-43, Rev. Proc. 2014-16, and Rev. Proc. 2015-14 for guidance.

## Making Changes on the Fly

Screen code:  
**PRNT**

Use the **PRNT** screen (accessed from with the **General** or the **Miscellaneous** tabs of the **Data Entry Menu**) to override program defaults.

## Suppressing/Forcing Documents

To suppress or force the printing of certain documents, go to the **PRNT** screen and select the desired options. Many “on the fly” changes override global setting from **Setup > Options**.

**1065 Items** The following Form 1065 items can be “forced” (forced to be generated or printed) or suppressed from the **PRNT** screen:

- **Force Schedules L, M-1, M-2 & K-1 Section L** — Schedules L, M-1, M-2, and K-1 Section “L” are not printed unless required. To have these schedules printed with the return, select this box.

- **Force Schedule K-1 Section L only** — “Force” the program to generate the K-1 section “L” information without generating any unnecessary Schedules L, M-2, and M-3. Any available data is generated in section “L, Partner’s capital account analysis,” of Schedule K-1.
- **Print Form 4562** — Form 4562, Depreciation and Amortization, is not generated unless applicable. Select this box to force the Form 4562 to be printed. (To force Form 4562 for all returns, go to **Setup > Options > Form & Schedule Options**, and clear the check box labeled **Print Form 4562 only when required**.)
- **Print next-year depreciation listing** — Select this box to print the next year’s depreciation schedule *if the option is not already selected* in **Setup > Options > Form & Schedule Options**.
- **Print inactive return** — By default, the program does not generate a return for a partnership that is inactive. Select this option to override the default for an inactive return.
- **PIN** — To have the preparer’s signature appear on the printed copy of return, enter the preparer’s PIN here This should be used for the client’s and preparer’s printed copies when the return has been e-filed.
- **Items to Suppress** — Select the boxes corresponding to any worksheets, forms, or functions you do not want printed with the return:
  - “Wks Tax/Lic” or the “Wks Sal/Wage” reference on page 1
  - Estimated Tax Payment Summary
  - Printing of “Wks M-2,” Partners’ Capital Reconciliation Worksheet
  - Proformas for next tax season
- **Special Allocation Statement** — Select to keep the statement listing all special allocations from being generated.

### K-1 Items

Described below are Schedule K-1 items that can be forced or suppressed from the **PRNT** screen:

- **Select to print:**
  - The partner’s adjusted basis worksheet
  - Page 2 of Schedule K-1 (codes)
- **Select to Suppress:**
  - Schedule K-1, K-1 letter, K-1\_ATT, or WK\_PBAS
  - Schedule K/K-1 Comparison Worksheet or the Capital Account Reconciliation
  - K1\_179 for each partner
  - Marking of “Amended K-1” box on printed Schedule K-1
- **Item L on Schedule K-1 (Partner’s capital account analysis)** — Drake Tax now uses “Tax Basis” as the default reporting method as the partners’ capital accounts. If you are not using the “tax basis” method, make an entry in the **Item L on Schedule K-1** section of the **MISC** screen (item #1 in Figure 24 on page 73). Mark either the **GAAP** or **Sec 704(b) book** check boxes, or type the method used in the **Other** text box. (If **Other**, Drake Tax includes a statement with the Schedules K-1.)



Item L on Schedule K-1 (Partner's capital account analysis)

Default - Tax Basis 1

GAAP     Sec 704(b) book

Other.....

---

Item M on Schedule K-1 2

All partners contrib. prop w/ built-in gain or loss.....  Yes     No

Print Overrides

**Figure 24:** Items L and M of PRNT screen

- **Item M on Schedule K-1** — Select a box (item #2 in Figure 24) to answer item M of Schedule K-1 for *all* partners. To answer it for each individual partner, go to the partners' **K1** screens. See “Item M Question” on page 53 for more information.

See field helps (F1) for more information on the options available.

## Overriding Other Setup Options

Select **Turn off autobalance** to disable the autobalance feature (see “Autobalance” on page 60) and select **Prepare a Form 7004 extension** if sending an extension application. (See “Filing an Extension” on page 25.)

The following program default settings can also be overridden from the **PRNT** screen:

- Date to print on return
- Due date to print on letter and filing instructions (see note below)
- Amount on Form 1065, page 1, item F (“Total assets”)
- IRS Service Center

## NOTE

The default due date for filing is printed on all letters and filing instructions generated with a return. You can override the default by entering an alternate due date in the **Due date to print on letter and filing inst** field.

Much of the information contained in the worksheets is also available from the field-level helps within the program. To access a field-level help, click inside a field and press F1, or right-click in a field and select **Help > Help for this Field**.

## NEW FOR 2019

Filing instructions (federal and state) and envelope coversheets (partnership, IRS, state, city, and K-1s to partners) are no longer forced or suppressed from the **PRNT** screen—those options are now available from the **COMM** screen (formerly the **LTR** screen)—but there is a link to the **COMM** screen on the **PRNT** screen. Use the options on the **COMM** screen to override the global selections in Setup Options.

For more on global options and the **COMM** screen, see Chapter 2 of the *2019 Drake Tax User's Manual*.

## Optional (but Recommended) Security Information

The information on the **Filing Security Information** screen (**SEC**) of the Partnership package is transmitted when the tax return is e-filed. Completing this screen for federal returns is strictly optional for 2019; however, certain states will begin requiring this information in the near future.

Screen (**SEC**) is accessible through a link on screen **1** or from the **Data Entry Menu**.

## Electronic Filing

Some partnerships with more than 100 partners are required to e-file Form 1065, Schedules K-1, and other related forms and schedules. For other partnerships, e-file is optional.

Steps for e-filing Form 1065 are the same as for e-filing Form 1040, with the exception of a bankruptcy return, which must be paper-filed. For detailed instructions on e-filing returns in Drake Tax, see *2019 Drake Tax User's Manual*.

## Additional Return Types

The following special types of business returns can be e-filed using Drake Tax:

- Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations
- FinCEN Form 114, Report of Foreign Bank and Financial Accounts
- Returns for entities using a 52-53-week year
- Short-year returns
- Inactive returns

For information on how to indicate a short-year return in Drake Tax, see “Short-Year Returns” on page 13.

## Form 5471

Screens used to complete Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations, are also found on the **Foreign** tab of the **Data Entry Menu**. This form is used by certain U.S. citizens and residents who are officers, directors, or shareholders, or partners in certain foreign corporations.

Taxpayers who must file this form are described in the IRS instructions. Form 5471 will not be e-filed with the 1065 return. File by the due date (including extensions) for that return.

## GILTI Income

Section 951A requires U.S. shareholders of controlled foreign corporations to determine and include their Global Intangible Low-Taxed Income (GILTI) in taxable income every year. Section 951A is effective for tax years of foreign corporations

beginning after 2017, and tax years of U.S. shareholders in which or with which such tax years of foreign corporations end.

In Drake Tax, use the **I1** screen, available on the **Foreign** tab of the **Data Entry Menu**.

For details on using this form, see the IRS instructions for Form 5471 or review the field helps on screen **I1**.

## Specified Foreign Corporations and Form 965

Section 965 of the Code (section 965) was amended by section 14103 of the Tax Cuts and Jobs Act (TCJA) requiring certain taxpayers to include in income an amount based on the accumulated post-1986 deferred foreign income of certain foreign corporations of which they are U.S. shareholders, either directly or indirectly through other entities. This is reported on Form 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System.

In Drake Tax, the **SFC** screen and screens used to complete Form 965 are in the **Form 965 and Schedules** section of the **Foreign** tab of the **Data Entry Menu**.

### NOTE

As of publication of this manual, the IRS had not released its final version of Form 965 and 951A; thus, the screens are inactive in Drake Tax. These screens will be activated with an update when the IRS releases its forms at the release date of this manual.

## E-FILE FINCEN FORM 114

Use screens on the **Foreign** tab of the **Data Entry Menu** for entering data on foreign financial accounts, for filing FinCEN Form 114, Report of Foreign Bank and Financial Accounts, and Form 8804, Annual Return for Partnership Withholding Tax allocable to foreign partners.

Screen **8813**, used for completing Form 8813, Partnership Withholding Tax Payment Voucher, allows you to enter amounts paid by the partnership in the prior year on foreign tax withheld and to produce vouchers for making 2020 quarterly payments. The filing and mailing instructions are listed on screen **8813**.

When you calculate a return in Drake Tax, any required information missing from screens **114** and **FRGN** generates EF Messages unique to the FinCEN Form 114 – listed in “FBAR Messages Pg” in View/Print mode. Before the FinCEN Form 114 can be eligible for e-file, all FinCEN 114 EF Messages on the “FBAR Messages Pg” must be cleared (and FinCEN has a green check mark on the **Calculation Results** window if you have the **Pause option** selected at **Setup > Options > Calculation & View/Print**).

In data entry, open screen **EF** and mark the **FinCEN 114 only** check box. Click **View** (or press CTRL+V). “FinCEN114” will be indicated on the EF Status page in View/Print mode and “Form 114” is displayed in the forms “tree” and is listed on the bill.

Close the return, and from the **Home** window toolbar, go to **EF > Select Returns for EF**. “FinCEN 114” will be displayed in the **EF Documents** column of the **EF Return**

**Selector.** EF. “FinCEN 114” will be displayed in the **EF Documents** column of the **EF Return Selector**.

Proceed as you would to e-file any other return in Drake Tax.

- Drake Tax produces “EF Notice - FBAR” as an acknowledgment that the e-filed FinCEN Form 114 report was received.
- No other returns—state or federal—can be transmitted with the FinCEN Form 114 through Drake Tax.
- Form 114, Report of Foreign Bank and Financial Accounts (FBAR), can be e-filed through Drake Tax in the same way all returns are e-filed through Drake Tax (see *2019 Drake Tax User’s Manual*). This report can also be completed on, and submitted through, the BSA E-Filing System for the Financial Crimes Enforcement Network website at <http://bsae filing.fincen.treas.gov/main.html>

The link to the BSA website is still available on screen **114** for those who prefer that method of filing or who are seeking more information on the BSA E-Filing System for the Financial Crimes Enforcement Network.

**TIP** For more on completing FinCEN Form 114, see “Foreign Financial Accounts” in Chapter 5 of the *2019 Drake Tax User’s Manual*.

## Electing a 52-53-Week Year (Initial Return)

To elect a 52-53-week year, a *new* entity (one that has never filed a return) must enter data on both screen **1** and the **Year** screen.

To elect a 52-53-week year for any entity:

1. In the **If not calendar year** section of screen **1**, enter the **Fiscal year beginning** and **Fiscal year ending** dates. Use MMDDYYYY format, as shown in the example in the figure below.
2. Mark the **52-53-week tax year** box.

If not a calendar year:	
Fiscal year beginning.....	09-28-2019
Fiscal year ending.....	09-25-2020
<input checked="" type="checkbox"/> 52-53-week tax year	<a href="#">Year</a>

In this example, the fiscal year begins 09/28/2019 and ends 09/25/2020 (the last Friday in September), giving the entity a 53-week year for 2019.

**NOTE** An entity that has filed returns in the past must complete only steps 1 and 2 of this process. An entity that has never filed a return before must continue with steps 3 through 6.

3. Click the **Year** link to open the **Election Options** screen.

4. For line 1, select the month in which the 52-53-week year ends for the current fiscal year. (01 = January, 02 = February, etc.)

Short Year Elections	
52-53-Week Tax Year Election	
1	Month in which new 52-53-week tax year ends..... 09
2	The day of the week on which the tax year always ends..... Friday
3	The date the tax year ends..... 09-27-2019

5. For line 2, select the day of the week the tax year always ends.
6. For line 3, enter the actual date that the tax year ends (the same date entered in the **Fiscal year ending** field on screen 1).

## NOTE

Once a 52-53-week year is selected, the entity must use that accounting period every year. To change accounting periods, the entity must submit to the IRS Form 3115, Application for Change in Accounting Method. Screens for completing Form 3115 are available from the **Other Forms** tab of the **Data Entry Menu**.

In subsequent years, only the **52-53-week tax year** check box on screen 1 must be marked; the program automatically updates the dates.

## Inactive Returns

Entities that are inactive but are still required to file returns may e-file *inactive* returns in Drake Tax. To indicate that a return is inactive:

Screen Code:  
PRNT

1. Go to the **PRNT** screen, accessible from the **General** tab or the **Miscellaneous** tab of the **Data Entry Menu**.
2. Under **Items to Print**, mark the **Print inactive return** box.

When the return is calculated, the program displays the words “Inactive Return” on the main form of the return (specifically, to the right of lines 1a and 1b). Zeros (“0”) are displayed where required by the IRS in order for amounts to be properly included in the e-file data.

## NOTE

All EF Messages must be cleared in order to e-file an inactive return.

## Common Reject Codes

If one or more of the following IRS reject codes are generated when you e-file a 1065 return, you must contact the IRS for further information. The e-file help desk number is (866) 255-0654.

- **Reject Code R0000-922-01** — Filer’s EIN and name control in the return header must match data in the E-File Database, unless “Name Control” or “Name of address change” check box is checked, if applicable.

- **Reject Code R0000-900-01** — The return type indicated in the return header must match the return type established with the IRS for the EIN.

## NOTE

If a reject associated with the return's "Name Control" occurs, some of your questions can be answered on the IRS's website. For details, go to [irs.gov/Tax-Professionals/e-File-Providers-&Partners/Using-the-Correct-Name-Control-in-e-filing-Partnership-Tax>Returns](https://www.irs.gov/Tax-Professionals/e-File-Providers-&Partners/Using-the-Correct-Name-Control-in-e-filing-Partnership-Tax>Returns)

## Binary Attachments

Binary, or PDF, files can be attached to certain tax forms. These attachments are generally signature or third-party documents such as a copy of a signed lease or a signed appraisal statement. In some instances, the IRS requires that a document be attached to an e-filed return; in other instances, a document can be attached voluntarily to support or explain an entry in the return. In either case, a document must be printed, scanned into the computer, and attached to the return in order to be e-filed with the return.

## The PDF Attachment Process

Three main steps are involved in the PDF attachment process in Drake Tax:

1. Creating a PDF document to be attached
2. Informing the program that a PDF document will be sent with the return
3. Attaching the PDF document for e-file

These steps are described in the following sections.

### Creating a PDF File

To create a PDF file:

1. Scan the document to be attached to the return.

## TIP

It's a good idea to use the scanning feature in Drake Documents for this step.

2. Save the document to your client's Drake Documents file, your computer's desktop, or anywhere you can readily find it.

## NOTE

Many types of documents (for instance, documents created in Microsoft Word) can be printed or "saved" as PDF documents if you have a PDF printer (such as Adobe Reader) installed.

### Adding PDF Documents in Drake

Screen Code: PDF

To indicate in the program that a PDF document will be sent with the return:

1. Open the return in Drake Tax.
2. From the **Data Entry Menu**, click **PDF Attachments**, accessible from the **Electronic Filing** section of the **General** tab.

3. Fill out the columns on the **PDF Attachments** screen. See Table 3 for example.

**Table 3: PDF Attachment Window Columns**

Name of Column	Description	Examples
<b>Reference Source</b> (This field is for your records only; it is not transmitted with the PDF.)	Name or number of regulation, publication, or form instruction that makes attachments necessary	- IRS Pub xxx-1.4 - Form Instructions for 1065
<b>Description</b>	Description of form or document to be attached	- Title of house on Oak Street - Appraisal of Lot 1234
<b>File name</b>	Distinctive, easily recognizable file name, followed by “.pdf”	- TitleHouseOakSt.pdf - AppraisalLot1234.pdf

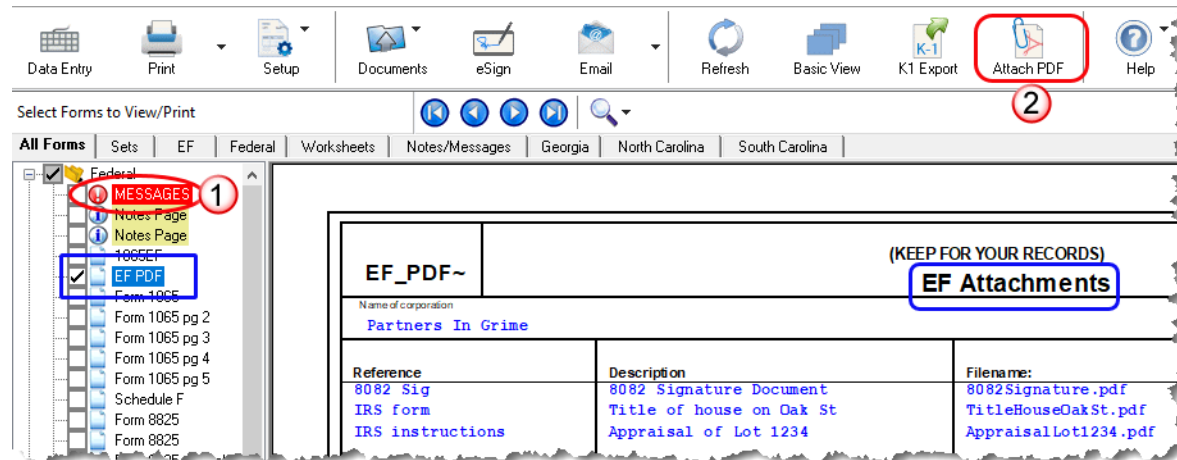
4. Exit the **PDF Attachments** window.

Because you’ve indicated that a PDF document is attached, the program generates an EF Message regarding the attachment when the return is calculated.

**Attaching Documents to the Return**

To attach a PDF file to a return:

- From the return, click **View**. If anything was entered in the **PDF Attachments** window, there will be three PDF-related items in the **View/Print** window:
  - An “MESSAGES” alert (item #1 in Figure 25)
  - An “EF Attachments” document (blue squares in Figure 25)
  - An **Attach PDF** button on the toolbar (item #2 in Figure 25)



**Figure 25: The MESSAGES file (1) and the Attach PDF button (2)**

- Click the “EF PDF” file from the forms tree to see a listing all documents entered on the **PDF** screen.
- Click the “MESSAGES” file to view EF Messages, including information on how to attach the required documents to the return.

4. Click the **Attach PDF** button. The **EF PDF Attachments** window displays the information entered on the **PDF Attachments** window in data entry. An **X** in a red circle means the document has not yet been attached; a check mark in a green circle indicates an attached document (Figure 26).

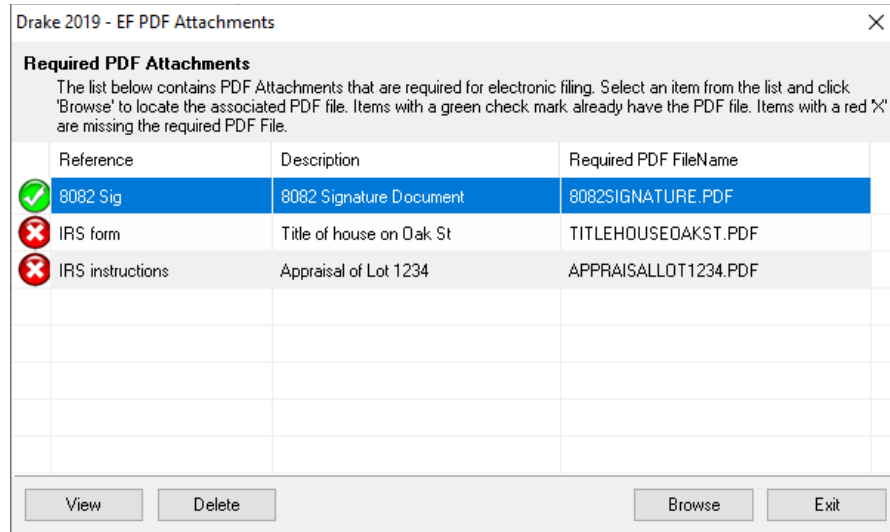


Figure 26: The EF PDF Attachments window

5. Click the row of a document to attach.
6. Click **Browse**.
7. Find to the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name).

Repeat for all documents with a red X. When all documents have been attached to a completed return (and show a green check mark), recalculate the return. If all EF Messages have been resolved, the return is ready to be e-filed.

## Importing Trial Balance Information

Drake Tax’s trial balance import feature allows data to be imported into a 1065 return from a trial balance worksheet. The trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Reduces data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

**NOTE** A flow chart of the trial balance importing process is available as Appendix A, Trial Balance Import (pages A-1 to A-2 of this manual).



## Preparing to Use Trial Balance Import

The trial balance import function can be used only on returns that were created in Drake Tax 2008 or later. Like several other functions of the tax program, this feature requires Microsoft Excel (version 2000 or later).

First, if you haven't already, create a client file (open a new return) in Drake Tax 2019 or update an existing client file from the prior year. Then, create a trial balance worksheet. (See "Opening a Template" on page 82.)

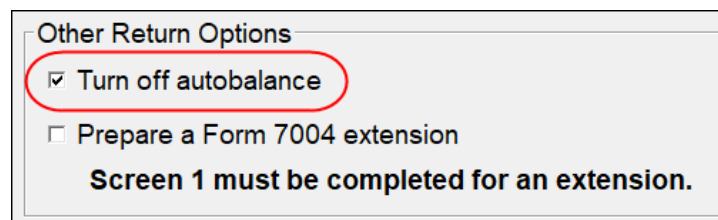
Take the following steps to ensure the trial balance import works properly:

- **Activate Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro settings are set to "Disable all macros with notification." To do so, go to **File > Options** in Excel and select the **Trust Center** tab. Click **Macro Settings** and select **Disable all macros with notification**, then click **OK**.

## NOTES

In Excel 2007, click the **Office** button in the upper left and then click the **Excel Options** button at the bottom of the window. (In Excel 2013, click the **File** tab then select **Options** from the menu on the left.) Next, select **Trust Center** from the list at left, then click the **Trust Center Settings** button. Select **Macro Settings** from the list on the left, then choose **Disable all macros with notification**. Click **OK** and then **OK**.

- **Disable Autobalance in Drake Tax** — (optional) When autobalance is disabled, the program is prevented from automatically adjusting the year-end retained earnings or capital amounts, thus allowing you to see any discrepancies in the balance sheet. To disable autobalance in Drake Tax, go to the **PRNT** screen and select **Turn off autobalance** (Figure 27).



**Figure 27:** Disable autobalance in **Other Return Options** section of **PRNT** screen

- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the partnership does not meet the filing requirement. If this is the case, you will have to override the default setting in order to have the amounts displayed on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen and select the **Force Schedules L, M-1, M-2, & K-1 Section L** box (Figure 28 on page 82).

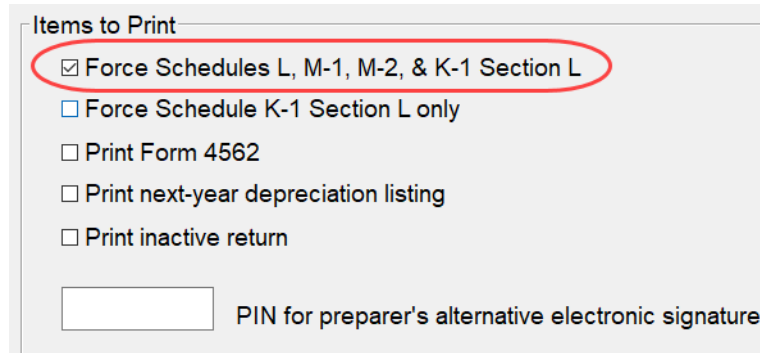


Figure 28: Force Schedule L box for 1065 package

- Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail worksheets (CTRL+W) that are *not* required. For example, the IRS does not require a detail worksheet for the **Gross receipts** field on the **INC** screen; if a return has a detail worksheet for that field, the trial balance will not be imported correctly into the return. Detail worksheets are indicated by red shading, as shown in Figure 29.

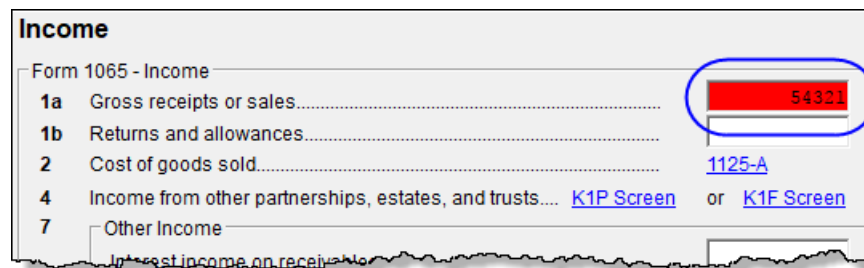


Figure 29: Example of an “unnecessary” detail worksheet

Remove unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 84 for more information on using detail worksheets in the trial balance.

## Preparing Financial Data for Import

To prepare the financial data for importing into the return, the data must be entered into Drake Tax’s specially designed trial balance template. Once this information is entered and saved, it can be imported into the return.

### Opening a Template

The first step in preparing financial data for importing is to open a trial balance template for the return and enter the financial data.

To open a trial balance template for a return:



1. Open the return to the **Data Entry Menu**.
2. Click **Import > Trial Balance Import** from the **Data Entry Menu** toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Create New** or **Open Existing**. If opening an existing file, click **Open** after selecting the correct file.

**4.** If a **Security Warning** box appears, click **Enable Macros**.

**NOTE**

In older versions of Excel, you may see a **Security Warning** message with an **Options** button. Click **Options** to open the **Security Options** dialog box, then select **Enable this content**. Click **OK**. (In Excel 2013, click **Enable Content**.)

The trial balance template is displayed in Microsoft Excel.

**File Location**

Whenever a new template is opened, the tax program assigns it a default file location and name. Trial balance templates are saved in the “TB” folder of your Drake19 program.

To change the name of a file in Excel, select **File > Save As** and assign the new name.

**NOTE**

If saving a trial balance to a different location, make a note of where you store it. The program automatically looks in the default directory.

**Template Structure**

The trial balance template consists of three title rows and six columns. The **Partnership Name** and **Year End Date** title rows can be edited; double-click a row to change the title. Columns are described in Table 4.

**Table 4:** Trial Balance Template Columns

<b>Column</b>	<b>Description</b>
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake Tax to which the debit or credit amount is imported
Reported on	Location of the amount on the printed return
Other Information	Additional details for preparers; see “Details for Preparers” on page 87.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; and a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (Figure 30 on page 84).

Net Income (Loss) = Schedule M-1, line 1	\$82,644	
Totals	\$89,171	\$89,415
OUT OF BALANCE?		(\$244)

**Figure 30:** Schedule M-1 amount (item #1); totals (#2); and indication of balance (#3)

Following are instructions and guidelines for using the trial balance template to assemble financial data for importing into data entry.

## Entering Financial Data

When a new trial balance file is opened for a return, all debit and credit amounts are zero (\$0). All data must be entered manually into the template.

### NOTE

Some data cannot be imported from the trial balance worksheet into the tax program and must be entered directly into the data entry fields within the Drake Tax program. For more on these categories of data, see “Special Conditions” on page 87.

#### Direct Entry

Most cells in the trial balance worksheet are view-only. In a new template, editable debit and credit cells are indicated by a dollar amount (\$0).

#### Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 31). If these cells do not work, you may need to activate them; see the Note in “Opening a Template” on page 82.

\$0	does not import	detail re
\$0	does not import	detail re
\$0	Book Income	requires
\$0	Other Income	requires
\$0	Sch K Income	requires
\$0	Sch K Deductions	requires

**Figure 31:** Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 32 on page 85 shows an example of the “Other Income” worksheet.

Line	Line Description	Amount	Import to:
2	Interest income on receivables	\$1,234	INC, line 7
3	Recoveries of bad debts deducted in earlier years	\$222	INC, line 7
4	Section 481 adjustments	\$321	INC, line 7
5	State tax refund (cash basis)	\$123	INC, line 7
6	Taxable income from insurance proceeds	\$1,020	INC, line 7
7	Other	\$0	Other Income Detail
<b>Total other income</b>		<b>\$2,920</b>	

Buttons and tabs shown in the interface:

- Click to return to TB (circled #2)
- Other Income Detail tab (circled #3)
- PTR TB tab (circled #1)

Figure 32: Trial balance worksheet for “Other Income”

To return to the previous worksheet, click the **PTR TB** tab (#1 in Figure 32) or click the **Click to return to TB** button above the worksheet tabs (#2 in Figure 32). Note that a detail tab (the “Other Income Detail” tab, #3 in Figure 32) might include one or more detail worksheets.

**NOTE** Do not create detail worksheets in data entry of Drake Tax if the trial balance worksheet does not provide an equivalent detail worksheet or the trial balance will not be imported correctly.

**Totals** Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount (Figure 30 on page 84).

In addition to credit and debit totals, the main trial balance worksheet shows the net income (loss) to be calculated for line 1 of Schedule M-1 after all entries and adjustments are made in the program.

**NOTE** The data cannot be imported into Drake Tax if the worksheet is out of balance.

## Saving a File

To save a file, click the **Save** icon or select **File > Save** from the menu bar. (In older versions of Excel, click the **Office** button in the upper-left corner and select **Save**. In Excel 2013, click the **File** tab then **Save**.) To re-name a file when saving, select **File > Save As**. Trial balance templates are saved in the “TB” folder of your Drake19 program.

## Importing Data into a Return

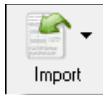
Once a trial balance worksheet has been set up for a client in Drake Tax, the trial balance information can be imported into the program and calculated into the return.

### NOTES

Not all trial balance data can be imported directly into a return. For information on program limitations, see “Special Conditions” on page 87.

If you are already in the Trial Balance Import tool for the selected return, go to the **Trial Balance Import** window in Drake Tax and start at Step 3 of the following procedure.

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Next**.
4. Enter or select the trial balance file to be imported. Use the **Browse** feature if necessary. By default, each trial balance file is an Excel (.xls) file displaying the client’s name and ending in “TB” for trial balance, as shown in the example in Figure 33. (See “File Location” on page 83.)

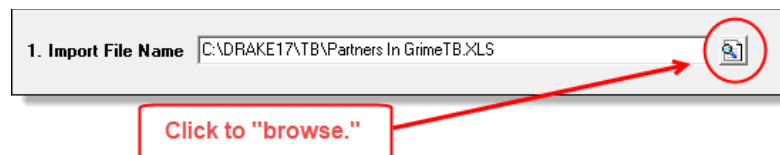


Figure 33: Selected file to import

5. Select the **Trial Balance Additional Import Options**. (See “Additional Import Options” on page 87.)
6. Click **Next** and wait for the import to be completed.
7. Click **Finish**.

The program returns to the **Data Entry Menu** for the open return. Note that all selected data from the trial balance worksheet has been imported into the return. This can be seen both in the data entry screens and on the generated return.

**NOTE** If the program does not calculate the trial-balance information as expected, you can return to the trial balance worksheet, make adjustments, and import the worksheet again

**Additional Import Options**

The program can import the following additional information when importing the trial balance data. Select the items to import or click **Select All** then click **Next**:

- Buildings and other depreciable assets      Accumulated depreciation
- Goodwill and other intangible assets      Land
- 8825/Rent information      Accumulated amortization
- COGS depreciation

**Special Conditions**

Some trial balance items cannot be entered into the trial balance worksheet and must be typed directly into Drake Tax data entry. Other items should be entered into the worksheet for balance purposes but do not flow to data entry; these must be entered separately and the calculated results compared to the trial balance worksheet.

**Details for Preparers**

Most trial balance items are imported directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 34 go to Schedule L, line 1, column d, in the program and are shown on page 5, line 1, column d of the 1065 return.

Debit	Credit	Import to:	Reported on:
\$555,555		L, line 1, col d	1065, page 5, line 1, col d
\$0		L, line 2a, col c	1065, page 5, line 2a, col c
	\$565,780		

**Figure 34:** Indication of where an amount will go in Drake Tax and on the return

The “Other Information” column in the trial balance worksheet indicates special conditions and additional information regarding certain rows. Table 5 describes the most common notes in this column.

**Table 5:** “Other Information” Column Notes

Note	Description
not included in totals	The amount is required for importing purposes only but is not included in the totals shown on the trial balance.

**Table 5: “Other Information” Column Notes**

Note	Description
does not import	Information cannot be imported and must be entered on the appropriate screen in Drake Tax. Screen is specified in the “Reported on” column to the left of “Other Information.”
optional	Amount is optional; not required for import, but could require direct entry in the program.
enter as negative number	Some deficits must be entered as negative numbers.
import includes the calculated change in inventory	Used for “total purchases”; when calculating cost of goods sold (COGS) in the return, the program takes the change in inventory into account for the Schedule A calculation.

All “does not import” notes are accompanied by further instructions in the “Reported on” column to the left of the “Other Information” column, as shown in Figure 35.

**SCH2 Detail** Typically, a balance sheet subsidiary schedule (SCH2 detail screen for Schedule L) is required for an item marked “does not import” on the trial balance. (Figure 35)

Account Title	Debit	Credit	Import to:	Reported on:	Other Information
Tax-exempt securities	\$0		L, line 5, col d	1065, page 5, line 5, col d	
Other current assets	\$5,555		Other current assets detail	SCH2 detail required in Drake	does not import
Loans to partners	\$3,232		L, line 7a, col d	1065, page 5, line 7a, col d	
Mortgage and real estate loans	\$1,234		L, line 7b, col d	1065, page 5, line 7b, col d	
Other investments	\$5,432		Other investments detail	SCH2 detail required in Drake	does not import
Buildings and other depreciable assets	\$0		L, line 9a, col c	1065, page 5, line 9a, col c	optional

**Figure 35: SCH2 screen required for “does not import” items**

To complete an SCH2 detail screen in the tax program:

Screen code:  
SCH2

1. Open the SCH2 screen for the return.
2. Select the line number from **Select line number from drop list**.
3. Enter the applicable item descriptions and beginning- and end-of-year totals.

To enter details for additional lines of Schedule L, press PAGE DOWN and repeat steps 2 and 3. Data is saved automatically upon entry.

When the return is produced, Schedule L of the return reflects both the amounts imported from the trial balance worksheet and the totals of the amounts entered on the SCH2 screens.

**Depreciation** Partnership (1065) returns can have up to four components of total depreciation:

- COGS
- Real estate rental
- Rental other than real estate
- Any remaining depreciation



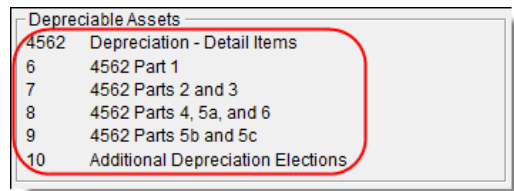
For trial balance purposes, enter depreciation amounts directly into the appropriate fields on the trial balance worksheet. Note that rental expense detail worksheets are required for **8825** and **RENT** depreciation.

**NOTE**

Enter **8825** and **RENT** depreciation amounts in the detail worksheets for importing purposes, but be aware that the **8825** and **RENT** screens in the program will have to be edited if **4562** detail screens (see figure below) are used.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Schedule A on the return, and the rental depreciation expense amounts flow directly to the appropriate lines of the **8825** and **RENT** screens, as applicable.

Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry (figure above). Enter depreciable asset data on a **4562** detail screen, or enter the total depreciation on the override screens.



**NOTE**

Entering the remainder of the depreciation on the trial balance worksheet helps ensure that the balance sheet balances and provides a way to check that the amount on line 1 of Schedule M-1 is correct. Compare the calculated line 1 amount at the bottom of the trial balance to the equivalent line on Schedule M-1 of the calculated return. If the depreciation amounts match but the line 1 amounts differ, an M-1 adjustment could be required.

**Rental Expenses**

The following information applies only to partnerships with multiple rental properties.

The partnership trial balances include lines for rental income and expenses (Figure 36). Both rental expense items require a trial balance detail worksheet.

Tax-exempt interest		\$0	K, line 18a	Sch K, line 18a, Sch M-1,
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	\$0		<b>Real Estate Rental Exp</b>	requires detail
Gross other rental income		\$0	RENT, line 1	Rent, line 1
Total other rental expenses	\$0		<b>Other Rental Exp</b>	requires detail
Gross royalties		\$0	K, line 7	Schedule K, line 7
Capital gains or losses	\$0	\$0	does not import	detail required on Schedu

**Figure 36:** Rental expense rows on a trial balance worksheet

When imported, the rental expense data entered on the trial balance worksheet appears on either the **8825** screen (if real estate rental) or the **RENT** screen (if rental other than real estate).

Because the trial balance worksheet has only one detail screen per rental type, the importing function does not accommodate entities with multiple rental properties or

expenses; however, the following procedure allows the trial balance to remain in balance if there are multiple rental properties or expenses.

To accommodate entities with multiple rental properties or expenses:

1. Calculate the totals for both types of rental expenses.
2. Enter the income totals on the trial balance sheet and the expense totals on the applicable detail sheets (Figure 36 on page 89).
3. Ensure that the balance sheet is in balance.
4. Import the trial balance worksheet into the return. The applicable screens in data entry now contain the figures entered on the trial balance worksheet.
5. Compare the M-1, line 1, amount on the trial balance to the M-1, line 1, amount on the calculated return to ensure that they match.

**NOTE** If the amounts do *not* match, review the imported amounts to ensure that all data was imported. If the data appears to have been imported correctly, an M-1 adjustment could be necessary.

6. Complete all **8825** or **RENT** screens in data entry, as applicable, for the individual rental properties or items.
7. Delete the **8825** and **RENT** screens that were imported from the trial balance (the screens reflecting the total rental expenses).

**NOTE** To delete a screen in data entry, open the screen and press CTRL+D. If a multiple forms list appears, be sure that the screen to delete is selected, then click **Delete**.

## Other Program Imports

Information for other outside worksheets can be imported into your 1065 return.

**4562 Import** With the **4562 Import** function, you can import depreciable assets into Drake Tax from Excel worksheets (Excel 97-2003 and Excel 2007/2010 or later), from a TAB (tab delimited) file, or a .CSV (comma separated value) file. After the import is completed, each asset or transaction appears on a separate **4562** screen.

To successfully import depreciable assets from a worksheet into Drake Tax, the worksheet must be correctly formatted. The best and quickest way to get a properly formatted Excel worksheet is to download a template from Drake Software. To do so:

1. Open a client's tax return.
2. From the **Data Entry Menu** toolbar, click **Import > Form 4562 Import**.
3. Click the **Form 4562 Import information and sample spreadsheet** link to open Drake Software Knowledge Base article 15982 on downloading the worksheet template. (Also in that article is a **4562 Import** link to an instructional video.)
4. In the 15982 article, scroll down to "2018 - 1065 Import Template." Click to download the template.

The worksheet is downloaded to your computer. Open it and save it where you can easily find it, such as the client's file in Drake Tax, in Drake Documents, or on your desktop.

To use the 4562 Import feature:

1. Open a client's tax return.
2. From the **Data Entry Menu** toolbar, click **Import > Form 4562 Import**.
3. When you are ready to begin the import process, click **Next**.
4. When the **Form 4562 Import - Step 1** window is opened, click **Browse**, find your worksheet, click **Open**, then click **Next**.
5. When the **Form 4562 Import - Step 2** window is opened, select the row where you wish to begin the import. (If the first row in the asset list is column headers, begin the import with row 2.) Click **Next**.
6. Click **Import**.

**NOTE** If a column in the template is red, that column will not be imported into the return.

If you use an Excel worksheet from other sources, you can still import the asset information into Drake Tax, but you need to be aware of certain parameters. For the asset information to be imported correctly:

- In an Excel workbook, the import data must be on the first sheet in the workbook.
  - View the workbook and check the tabs across the bottom of the window. If there is more than one tab, click and drag the worksheet you want to use to the left until it is the first tab.
  - The name on the tab does not matter.
- The import file must contain the specified columns in the specified order. Each column represents a field on the **4562** screen as determined by the column *location* (not by the header labels, which are optional)
- Except for column headers, do not put anything in the import file that should not be imported.
- If you include column headers, make sure to start importing on the first *data* row, not the header row (Start import at row 2).
- If totals are present, remove them. The totals may be imported, doubling your data.

The best way to enter dates in Excel is to format the date columns as text in the MMDDYYYY format (separators can be used or omitted).

### **Form 8949 Import**

With the **Form 8949 Import/GruntWorx Trades** feature, you can import capital gain and loss transaction data into Drake Tax from Excel worksheets (Excel 97-2003 and Excel 2007/2010 or later), from a TAB (tab delimited) file, or a .CSV (comma separated value) file.

To successfully import transaction information from a worksheet into Drake Tax, the worksheet must be correctly formatted. (GruntWorx Trades are already properly for-

matted.) The best and quickest way to get a properly formatted Excel worksheet is to download a template from Drake Software. To do so:

1. From the **Home** window toolbar in Drake Tax, click **Support > Drake Software Knowledge Base**.
2. When the Drake Software Knowledge Base is opened, in the **Quick Search** field in the top-right corner of the window, type 10139 and click the magnifying glass icon on the right.
3. After the search has been completed, click “10139: Schedule D Form 8949 Gruntworx Trades Import” from the **Search Results**.
4. In article 10139, scroll down to **Attachments** and click “2016 and Future...”

The worksheet is downloaded to your computer. Open it and save it where you can easily find it, such as the client’s file in Drake Tax, in Drake Documents, or on your desktop.

## IMPORTANT

- For importing 8949 data into a 1065 return from the Drake Tax template, the “TSJ” column in the template represents the **Property type** field on screen **8949**.
- If you are building your own worksheet for importing 8949 data, include the “QSBS” (Qualified Small Business Stock) columns in the worksheet but enter no amounts in those columns; when 8949 data is imported, those two columns are ignored.
- Do not include the **EIN (QOF Only)** field from screen **8949** when building your worksheet.

To use the 8949 Import feature:

1. Open a client’s tax return.
2. From the **Data Entry Menu** toolbar, click **Import > Form 8949 Import**.
3. In the **Form 8949 Import** window, review the example spreadsheet format.
4. When you are ready to begin the import process, click **Next**.
5. When the **Form 8949 Import - Step 1** window is opened, click **Browse**, find your worksheet, click **Open**, then click **Next**.
6. When the **Form 4562 Import - Step 2** window is opened, select the row where you wish to begin the import. (If the first row in the asset list is column headers, begin the import with row 2.) Click **Next**.
7. When the **Form 4562 Import - Step 3** window is opened. Click **Import**.

After import, each transaction appears on a separate **8949** screen.

## NOTES

- Click the **8949 Import Tool** link in KB article 10139 to view an instructional video using the 8949 Import feature.
- For more help, click **Help** from the **Form 8949 Import** window (in Step 3, above) or see “Form 4562 Import” and “Form 8949 Imports” in Chapter 5 of the *2019 Drake Tax User’s Manual*.

## Form 3115, Application for Change in Accounting Method

Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either an entity’s overall accounting method or the accounting treatment of any item. Drake Tax customers can complete and e-file Forms 3115 and related schedules and attachments for partnership returns.

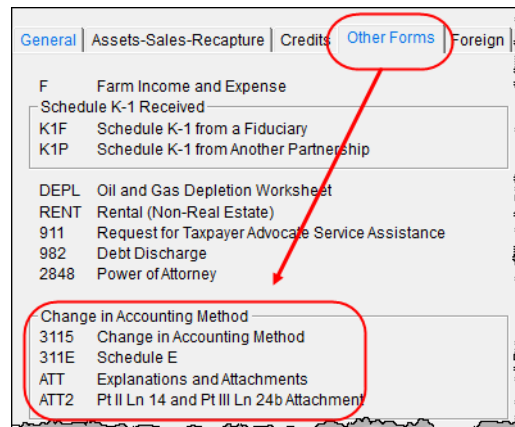
In some cases, Form 3115 must still be paper-filed.

### NOTES

Applicants filing Form 3115 should refer to Rev Proc. 2015-13 for general automatic change procedures, and to Rev Proc. 2015-14 for a list of automatic changes to which the automatic change procedures in Rev. Proc. 2015-13 apply.

### Accessing Screens for Changing Accounting Method

Several screens may be required to complete Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the first **Other Forms** tab of the **Data Entry Menu** (figure at right). The screens accessible from the Change in Accounting Method section include:



- Screen **3115 (Change in Accounting Method)** — Used to access fields for Form 3115, including Schedules A through D
- Screen **311E (Schedule E)** — Used to request a change in depreciation or amortization methods
- Screen **ATT (Explanations and Attachments)** — Used to create and view certain attachments to be generated by the software
- Screen **ATT2 (Pt II Ln 14 & Pt III Ln 24b Attachment)** — Used to complete certain parts of Form 3115 that require specific attachments

When you open screen **3115**, the program displays the first of six screen tabs. As shown in Figure 37, you can access the various **3115** screens by clicking a tabbed link at the top of any of the **3115** screens.

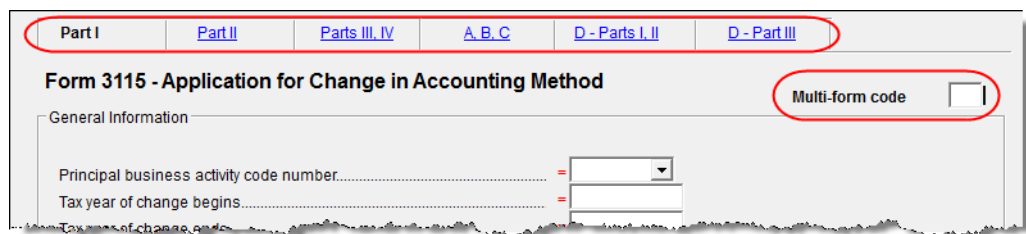


Figure 37: Tab links on 3115 screen

**Multi-form Codes**

All **3115** and related screens contain a **Multi-form code** text box (shown in Figure 37 on page 93) that allows you to link a screen or attachment to a particular Form 3115.

If submitting more than one Form 3115, assign a multi-form code to each new application you create in Drake Tax. The first should be “1,” the second “2,” and so on. When using other screens, such as the **311E** or **ATT** screens, you can use those numbers to indicate which instance of Form 3115 the **311E** or **ATT** screen should be associated with.

**NOTE**

If only one Form 3115 is being submitted, it is not necessary to enter anything in the **Multi-form code** box.

**TIP**

See **Screen Help** (accessible from the **3115** screen toolbar, from the right-click menu, or by pressing CTRL+ATL+?) to access the Form 3115 instructions through the IRS website.

**Notices of Missing Attachments**

In addition to Form 3115 and related schedules and statements, the program produces EF Messages (as applicable) when the return is calculated. All forms, schedules, EF Messages, and worksheets are accessible from View/Print mode.

EF Messages for Form 3115 provide information about required attachments (including PDF attachments) that are missing from the return. Some messages list all statements required for a particular section but do not indicate which statements, specifically, are missing. To best understand which attachments are still required, compare the **ATT** screen to the list of EF Messages in View/Print mode.

**NOTE**

All EF Messages must be eliminated before the return is eligible for e-file. EF Messages for Form 3115 attachments are eliminated when all required statements have been attached to the return.

**EF “Notice” and EF “ACK” Pages**

Similar to federal Form 9325, Acknowledgment and General Information for Taxpayers who File Returns Electronically, generated with 1040 returns, the federal business packages generate an “EF Notice” page in View/Print mode for the main forms of federal returns, and state business packages generate a “(ST)EF ACK” page for the main forms of state returns.

These are Drake Tax-generated forms that serve the same purpose as Form 9325: an acknowledgment that a return has been transmitted through Drake Tax and received by the IRS or the applicable state agency.

When a return is e-filed and you receive a “P” ack (indicating that the return is being processed) or an “R” ack (for a rejected return), the top section of the EF Notice is completed, noting the name and address of the client, the return type, the ERO who transmitted the return, and an indicator that the return was *received* by the IRS or applicable state agency.

When you download and process your acknowledgments and receive an "A" ack, the second section of the EF Notice is generated, indicating the return was *accepted* by the IRS or state agency and the date the return was accepted. The submission ID number is also included.





## **Appendix A: Trial Balance Import**

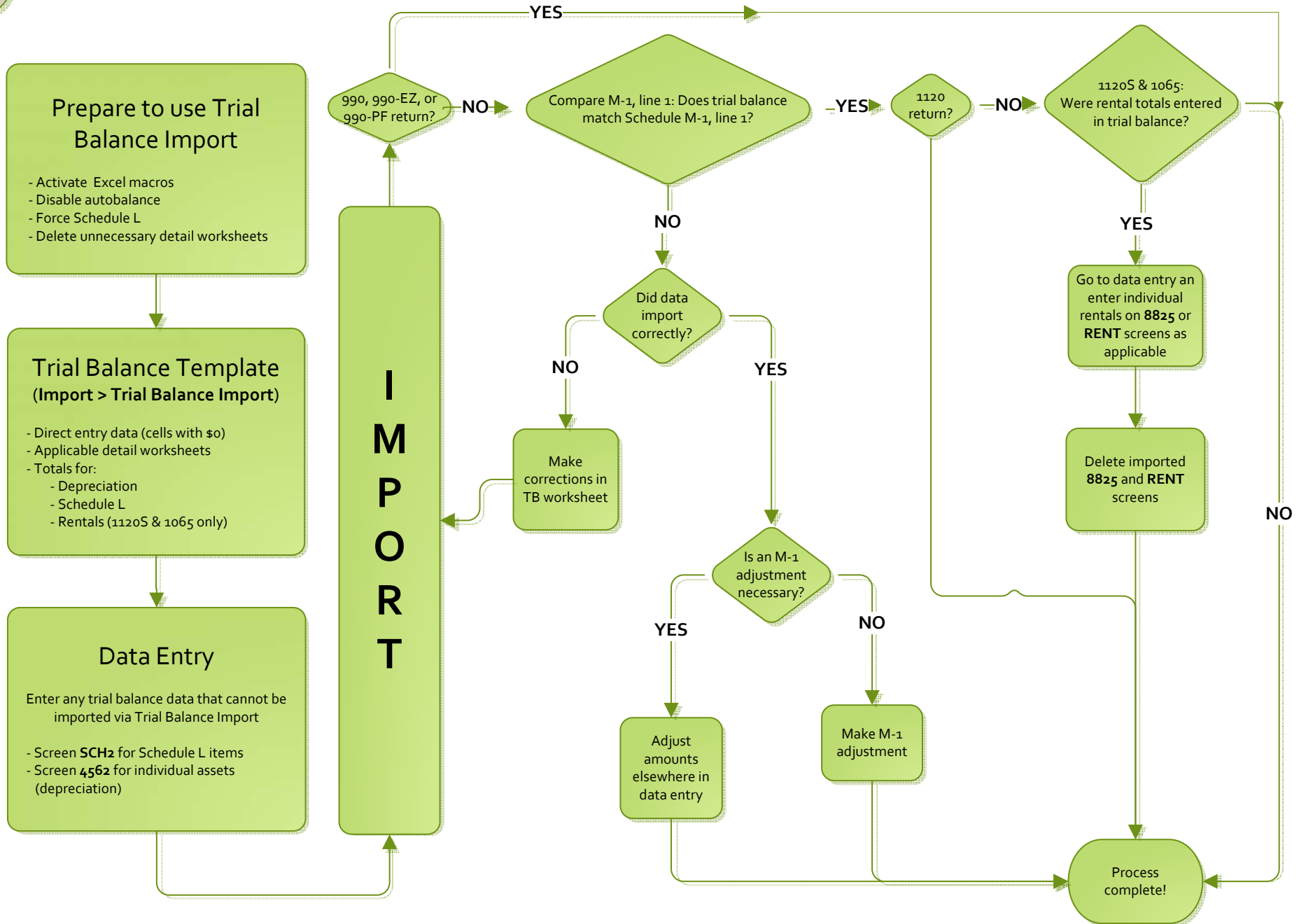
The trial balance import allows data to be imported into a partnership tax return from a trial balance worksheet.

Drake Tax's specially designed trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Eliminates data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

See the next page for a flow chart describing the use of the trial balance import.

# Trial Balance Import: General Process



# Index

## Numerics

52-53-week year returns 76

## A

accounting method  
     changing 77, 93  
     entering on 1065 14  
 accrual (accounting method) 14  
 address  
     entering on Form 1065 12  
     foreign 50  
     on K-1 letter heading 56  
     out-of-state 34  
 adjusted basis worksheet 52, 54, 72  
 adjustments  
     depreciation 61  
     to income and expenses 68  
 Aggregation  
     multiple 45  
 aggregation 41, 42  
     multiple 42  
 allocations  
     section 754 54  
     special (screen SA) 50, 54  
 amending  
     a 1065 return 14, 26  
     and TEFRA audit rules 27  
     K-1 letters 56  
 amortization 21, 23, 58  
 analysis  
     of capital accounts (Schedule M-2) 60  
 APPT screen, *see* Multi-State Apportionment  
 asterisks (on K-1 codes) 50  
 attachments  
     binary 78–80  
     to Form 3115 93  
 autobalance 60, 73

## B

bad debts 17, 18  
 bankruptcy returns, e-filing not allowed for 74  
 basis 54  
     *see also* adjusted basis worksheet  
 book-to-tax differences (Schedule M-1) 60–62  
 business activity codes 14

Business Aggregation Number 42  
 PBAN 42

## C

calendar year returns 13, 25  
 cash (accounting method) 14, 18  
 Centralized Partnership Audit Regime  
     electing out 30  
 Change in Accounting Method 93–94  
 Client Communications Editor (for letters) 55  
 codes  
     business activity 14  
     error/reject 77  
     K-1 49, 72  
     miscellaneous (screen 1) 34  
     multi-form 64, 94  
 compensation of partners 17  
 contact information (for state returns) 32  
 control number 48  
 cost of goods sold, *see* Schedule A (Cost of Goods Sold)  
 cover letters (K-1) 55  
 coversheets 73  
 credits 16, 23, 68  
 Ctrl+W (detail) worksheets 15, 17, 82

## D

data entry  
     for state information 32  
     importing trial balance into 80–90  
     state tabs in 32  
 dates  
     business start 14  
     tax year 13  
 DBA 12  
 deductions 17–23  
 depletion 22  
     oil and gas 45  
 depreciation  
     entering 20–21  
     for cost of goods sold (Schedule A) 15  
     of rentals 20, 64  
     on short-year returns 14  
     printing Form 4562 72  
     trial balance (business returns only) 88  
 detail (Ctrl+W) worksheets 15, 17, 82  
 Doing Business As 12

domestic production activities deduction 55  
 due dates 25

**E**

EF\_ACK page 94  
 e-filing 74  
     Form 8879-PE 26  
 Elections  
     Safe Harbor 70  
 electronic signatures (PIN) 25  
 employee benefit plans 22  
 envelope coversheets 73  
 error codes 77  
 expenses 17–23  
 exporting K-1 data 51  
 extensions 25, 73

**F**

farm profit or loss 16  
 filing instructions 73  
 final return 14  
 FinCEN Form 114 75  
 fiscal year returns 13  
 force print  
     end-of-year totals 58  
 foreign  
     addresses for partners 50  
     ownership 28  
     transactions 45  
 Form 114, Report of Foreign Bank and Financial Accounts 75  
 Form 3115 (Application for Change in Accounting Method) 77, 93–94  
 Form 4562 (Depreciation and Amortization) 64, 72  
 Form 4797 (Sales of Business Property) 16  
 Form 5471 (Information Return of U.S. Persons with Respect to Certain Foreign Corporations) 74  
 Form 5884 (Work Opportunity Credit) 68  
 Form 6478 (Biofuel Producer Credit) 16, 68  
 Form 6765 (Credit for Increasing Research Activities) 23, 68  
 Form 7004 (Application for Automatic Extension of Time to File) 25  
 Form 8082 (Notice of Inconsistent Treatment or Amended Return) 27  
 Form 8804, Annual Return for Partnership Withholding Tax allocable to foreign partners 75  
 Form 8820 (Orphan Drug Credit) 23, 69  
 Form 8825 (Rental Real Estate Income and Expenses of a Partnership or an S Corporation) 64–67  
 Form 8825 (Rental Real Estate) 66  
 Form 8832, Entity Classification Election 31

Form 8844 (Empowerment Zone Employment Credit) 69  
 Form 8845 (Indian Employment Credit) 69  
 Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) 19, 69  
 Form 8864 (Biodiesel Fuels Credit) 16  
 Form 8873 (Extraterritorial Income Exclusion) 23  
 Form 8879-PE (IRS e-file Signature Authorization for Form 1065) 26  
 Form 8881 (Credit for Small Employer Pension Plan Start-up Costs) 69  
 Form 8912 (Credit to Holders of Tax Bonds) 68  
 Form 8912 (Credit to Holders of Tax Credit Bonds) 69  
 Form 8916A (Supplemental Attachment to Schedule M-3) 63  
 Form 8941 (Credit for Small Employer Health Insurance Premiums) 69  
 Form 8941 (Credit for Small Employer Health-Insurance Premiums) 23  
 Form 8990, Limitation on Business Interest Expense Under Section 163(j) 30  
 Form 8994, Employer Credit for Paid Family and Medical Leave 69  
 Form 8996, Qualified Opportunity Fund 68  
 Form 8996, Qualified Opportunity Funds 31  
 Form 8997, Initial and Annual Statement of QOF Investments 67  
 Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments 31  
 Form 965 (Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System) 75  
 Form 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System 75  
 Form T (Forest Activities Schedules) 22

**G**

gains and losses 16  
 GILTI 74, 76  
 Global Intangible Low-Taxed Income 74  
 grid data entry 49  
 gross receipts 15  
 guaranteed payments 17

**H**

header information 12  
 health insurance 22  
 health savings account (HSA) 18

**I**

import  
     4562 90  
     8949 91

importing trial balance 80–90  
 inactive returns 77  
 income 14–17  
 instructions for filing 73  
 insurance  
   and contributions to benefit plans 22  
   proceeds, income from 17  
 interest  
   expense 19  
   income 17  
   ownership of (Schedule B) 27–32  
   self-charged 19  
 inventory (on Schedule A, Cost of Goods Sold) 15  
 IRAs 22  
 Item M (on Schedule K-1) 53

## K

K-1 codes 49  
 K-1 cover letter 55–56  
 K-1 export 51  
 K-1, Schedule for 1065 46–53

## L

letters (K-1) 55

## M

M, item (on Schedule K-1) 53  
 maintenance costs 18  
 medical care for employees 22  
 MISC screen 10  
 Multi-State Apportionment 32

## N

name control reject 78  
 net  
   farm profit or loss 16  
   gain or loss 16  
 next-year depreciation listing 72  
 number of partners 14

## O

oil and gas depletion 45  
 ordinary gains and losses 16  
 other  
   costs (Schedule A) 15  
   deductions 23  
   income (loss) 16  
 overrides  
   of calculations for partners 50  
   on screen 1 34

ownership  
   changes 51  
   of interest (Schedule B) 27

## P

partners  
   compensation of 17  
   foreign addresses for 50  
   guaranteed payments to 17  
   health insurance 18  
   returns with numerous 50  
   rounding 47  
   Schedule K-1 46  
   special allocations for 54  
   updating data annually 54  
 payments, guaranteed 17  
 PBAN 42  
 PBAN fields. 41  
 PDF attachments 78  
 PIN (electronic) signatures 25  
 principal business activity 14  
 principal product or service 14  
 printing  
   1065 returns 71  
   adjusted basis worksheets 72  
   cover letter for K-1 55, 56  
   force 71  
   K-1 items 50  
   suppressing/forcing documents 71  
 prior-year returns, updating 12

## Q

QBI  
   aggregations 43  
 Qualified Business Income  
   aggregation 41  
 Qualified Business Income (QBI) 37  
 Qualified Opportunity Fund (QOF) 31  
 Qualified Opportunity Funds 68

## R

real estate 88  
 receipts 15  
 refunds, state 17  
 reject codes 77  
 rent paid on business property 18  
 rental activities 64–67  
 Rental properties  
   safe harbor 40  
 repair costs 18  
 resident state 32, 34

retirement plans 22

returns

52-53-week year 76

bankruptcy 74

extensions for 25

fiscal and calendar year 13

inactive 77

short-year 13

signing 25

updating prior-year 12

rounding partner 47

royalties worksheet 67

## S

SA screen 35

Safe Harbor 40

Safe Harbor Elections 70

scanning attachments for e-filing 78

Schedule A (Cost of Goods Sold) 15–16

Schedule B (Other Information) 27

Schedule B-1 (Information on Partners Owning 50%) 28

Schedule K (Partners' Distributive Share Items) 34–46

Schedule K-1

grid data entry 49

Partner Information 46–53

Supplemental information 52

Schedule K-1 (Share of Income, Deductions, Credits, etc.)

sorting business K-1s 48

Schedule L (Balance Sheet per Books) 56–60, 71, 72

Schedule M-1

adjustments 59

Reconciliation of Books 60

Reconciliation of Books With Return 71, 72

Schedule M-2 (Analysis of Capital Accounts) 60

Schedule M-3

force printing 63

Schedule M-3 (Net Income (Loss) Reconciliation) 60, 62

section

179 21, 54

481 17

754 21, 54

Section 199A items 39

security

business packages 74

security screen 74

self-employment income 67

SEP or SIMPLE plans 22

short-year returns 13

signatures, electronic 25

signs return partner 25, 47, 55

special allocations 35

special allocations (screen SA) 50, 54

Specified Foreign Corporations 75

Specified service trades or businesses 39

state

overriding information related to 34

resident 32

tabs in data entry 32

tax refunds 17

statements 59

elections 70

Schedule L 58

Schedule M-3 63

state-specific information 32

## T

tax

years (fiscal vs calendar) 13

Tax and Payments 23

Tax Equity and Fiscal Responsibility Act (TEFRA) 27

TAX screen 23

taxes and licenses 18

trial balance import

and depreciation 16

and SCH2 screens 59

instructions for using 80–90

## U

updating

a prior-year return 12

partner data annually 54

## W

wages 17

What's New for 2018 9

## Y

Year screen 13