

SUPPLEMENT:  
S C O R P O R A T I O N S  
( 1 1 2 0 S )

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**DrakeTax**<sup>®</sup>



# **Drake Tax User's Manual**

**Tax Year 2019**

**Supplement: S Corporations  
(1120S)**

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# S Corporations (1120S)

*THE BASICS OF DATA ENTRY FOR AN S CORPORATION (1120S) RETURN ARE THE SAME AS FOR A 1040 RETURN. NAVIGATION THROUGH DATA ENTRY, FIELD- AND SCREEN-LEVEL HELP, AND KEYBOARD SHORTCUTS ALL FUNCTION AS THEY 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 S Corporations

Drake Tax is programmed to conform to the latest IRS rules and regulations. The 2019 program reflects all changes to forms, credits, and deductions. For details on the new regulations for the 2019 tax year, see the IRS instructions for Form 1120S.

### IMPORTANT

Some new IRS forms – and the Drake Tax screens used to complete these forms – had not been released in time for the publication of this supplement. When these forms are released, programmed, tested, and released, this manual will be updated and available on the Drake Support website, *Support.DrakeSoftware.com > Training Tools > Manuals.*)

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 1120S package in Drake Tax for the 2019 tax season:

## New or Enhanced Forms and Screens for 2019

Following are some of the changes the IRS and Drake Tax have made to the S Corporation package for the 2019 filing season:

- Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments, along with the corresponding data entry screens, has been added to the 1120S 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, 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. See “Form 8997” on page 30 for more information.

- A corporation uses Form 8996 to certify that it is organized to invest in Qualified Opportunity Zone (QOZ) property. Screen 8996 is used to complete Parts I, II, and IV. This year, Drake Tax added a second screen, **Parts V and VI**, available through a link at the bottom of the **8996** screen. See “QOF Investments” on page 30 for more information.
- The IRS added item “J” to page 1 of Form 1120S, with two new check boxes, which are completed on screen **1** in Drake Tax:
  - Aggregated activities for section 465 at-risk purposes
  - Grouped activities for section 469 passive activity purposes
- The IRS made the following changes to Schedule K-1:
  - Part III, line 17: codes for Qualified Business Income (QBI) items have been changed to a single code “V”
  - Lines 18 and 19 added to Part III of Schedule K-1 to indicate that there are attachments to the Schedule K-1 related to the corporation having more than one activity for section 465 at-risk purposes, or more than one activity for section 469 passive activity purposes, or both.
- Drake Tax is including new worksheets with 1120S 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 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.

- 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*.
- A **Name Control** field has been added to the **EF** screen. Use the **Entity Name Control Override** field only if your client has obtained a Name Control from the IRS.” See “Name Control” on page 68 for details.
- 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.

## Before You Start

Actions you might need to take before starting an 1120S return in Drake Tax include:

- Updating a prior-year return (if you prepared the return last year)
- Electing as an S corporation (if the corporation was not an S corporation last year)

## Updating a Prior-Year Return in Drake Tax

A prior-year return can be updated in three ways:

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

## Indicating an S Corporation

If the corporation is electing as an S corporation for the first time, it is necessary to indicate this in the program.

### S Corp Election

On screen **1** in the **General Information** section, line **A**, enter the date of election as an S corporation. On line **E**, enter the date incorporated. On line **G**, mark the “First year as an S corporation” box.

Form 2553, Election by a Small Business Corporation, is required if the entity is making the election with the return. In Drake Tax, use screen **2553**, accessible by clicking the **Form 2553** link on screen **1** or from the **Miscellaneous** tab of the **Data Entry Menu**.

When you have completed the **2553** screen, open the **SH** screen – also available from the **Miscellaneous** tab of the **Data Entry Menu** – and complete a screen for each shareholder. Type in the name, address, number of shares, date the shares were acquired, and either an SSN or EIN of the shareholder.

## NOTE

- An **SH** screen must be filled out for each shareholder in order to complete Part I of Form 2553.
- If attaching a signed Form 2553 to the return as a PDF document, mark the **Attaching Form 2553 as a PDF document** box on screen **1**. (See item **M** of the FAQs for more on attaching .PDF files to e-filed returns.) If not sent as a PDF, the form must be mailed separately to the IRS *before* filing the tax return. See Form 2553 instructions at [irs.gov](http://irs.gov).

## Changing File Type

To change a “C” corporation to an S corporation (1120 to 1120S) within Drake Tax:

1. From the **Home** window menu bar, select **Tools > File Maintenance > Change File Type** to open the **Convert Client Data File Type** search window.
2. In the **Client Selection** text box, type the EIN or name of the entity. (You can also double-click the return from the **Client Name** list or click the **Recent Returns** drop list and then choose a category to help narrow your search.)
3. Click **Continue**.
4. Select the new return type.
5. Click **Continue** to save the change, then click **OK**. (Click **Exit** to leave the **Convert Client Data File Type** window without making changes.)

## Other Information and Overrides

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

- **Resident State** — If the corporation has a mailing address in one state but does business in another, select the state in which the corporation does business from the **Resident State** drop list. (When certain states (DE, IN, KY, MI, MO, NY, OH, PA) are selected from the **Resident state** drop list, the **Resident City** drop list is activated. Select a city to prepare the appropriate city tax return. (If the **Resident City** drop list is inactive, a city return is either not required or not available.)
- **Miscellaneous Codes and Overrides** — The **Other Information** section of screen **1** includes fields for miscellaneous codes, invoice numbers, and several override fields. See “Listing a Different Firm, Preparer, or ERO on a Return” and “Customized Drop Lists” in Chapter 2 of the *2019 Drake Tax User’s Manual*.

## NEW FOR 2019

An option was added to “Update Misc Codes on Screen 1,” available during the update process (**Last Year Data > Update Client 2018 to 2019**) in the federal business packages. This option allows you to bring forward from 2018 the miscellaneous codes and drop lists you created last year. For more information on using these code fields, see “Miscellaneous Codes” in Chapter 5 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 1120S.

### Name and Address

Use screen **1** to complete the name and address section of Form 1120S. If the corporation has an alternate address (such as a P.O. box) for state purposes, you can enter that address in the **Address Line 2** field at the bottom of screen **2**. (Access screen **2** by clicking the **State Info** link on screen **1**, by clicking **2** from the **States** tab of the **Data Entry Menu**, or by entering 2 in the selector field and pressing ENTER.)

#### “Doing Business As”

(*Optional*) Anything typed into the **DBA** field in the **Name and Address** section of screen **1** will be printed below the legal name of the corporation 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.

#### Continuation Line

The **DBA** field on screen **1** 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. Those state packages ignore data entered in the **DBA** field.

#### “In Care Of”

(*Optional*) Indicate the person or entity to whom all information should be addressed, if not to the corporation in general. A name entered in the **In care of** field on screen **1** will be printed above the corporation’s name on in the “Name” section at the top of page 1 of Form 1120S.

This information is not required by the IRS, but is provided in the program for your convenience. It should be used for federal returns and for state returns where applicable.

*Do not* enter the legal name of the corporation in this field.

### Tax Year

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

## NOTES

- The program adjusts calculations for depreciation and for gains and losses on sales of assets based on the entity’s tax year.
- For information on filing with a 52-53-week year, see “Electing a 52-53-Week Year (Initial Return)” on page 67.

## Fiscal and Calendar Years

If the S corporation 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 calendar year** section of screen **1**.

## Short-Year Returns

A corporation may have to file a short-year return if the entity is 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.

Short-year return election information and 52-53-week tax year election information is entered on the **YEAR** screen, available from a **Year** link on screen **1** or on the **Miscellaneous** tab of the **Data Entry Menu**. (Certain other elections are made using the **ELEC** screen.)

To enter short-year information:

1. Enter short-year dates on screen **1** in the **Fiscal year begins** and **Fiscal year ends** fields, even if the firm uses the calendar year for full-year returns. (These dates appear on the top of the federal form.)
2. Click the **Year** link to open the **YEAR** screen.
3. Make your short-year selection from the **Other short-year election reason** drop list. Your explanation appear at the top of the first page of the tax return. If you do not select an explanation, an EF Message is generated with the return and the return cannot be e-filed
4. If you selected “General Explanation” from the **Other short-year reason** drop list, type details of the reasons for filing a short-year return in the **Explanation** text box.

For more information on short-year explanations, see IRS Pub. 4163.

## NOTES

The program may not correctly calculate depreciation, gains, or losses for a short-year return. Depreciation for a short-year return can be entered on screen **4562** and screens **6, 7, 8, and 9**.

## First-Year Returns

An S corporation filing a first-year return must use the fiscal-year fields in the **If not calendar year** section of screen **1** if the date of election as an S corporation occurs *after* the start of the tax year—that is, if the date entered on line **A** of the **General Information** section of screen **1** comes after January 1, 2019.

In the **Fiscal year begins** field, enter the date of election as an S corporation. In the **Fiscal year ends** field, enter the end of the calendar year (or the end of the fiscal year if not using a calendar year).

## Boxes A through J

Enter most information for boxes A through J (top of Form 1120S) on screen **1**. Note that boxes C (“M-3 attached”) and F (“Total assets”) are completed automatically by the program based on data entered elsewhere. Other boxes are:

- Box A — S election effective date

- Box B — Business activity code (From screen **1**, choose a code from the line **B** drop list, or click in the line **B** field and press CTRL+SHIFT+S to search for a code.)
- Box D — Employer Identification Number (EIN)
- Box E — Date incorporated
- Item G — Indicates first year as S corporation and inclusion of Form 2553 with return
- Item H — Check boxes for final return, name change, address change, amended return, and S election termination or revocation
- Item I — Number of shareholders during the year (completed automatically based on the number of K-1s; number can be overridden on line I of screen **1**.)
- Item J — *(New for 2019)* Mark the **Aggregated activities for section 465 at-risk purposes** check box if any activities covered by the at-risk rules can be treated as a single activity. Mark the **Grouped activities for section 469 passive activity purposes** check 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.)

## NOTES

Enter the accounting method on screen **1**.

The **Client information** fields near the bottom of screen **1** are for reports only and not included in the e-file record.

**QBI Section** Screen **1** in Drake Tax now has three boxes in the **QBI** section. Mark them accordingly:

- Mark the **Specified Trade or Business** check box if the corporation is a specified trade or business.
- Individuals, estates, and trusts that are shareholders in an S corporation 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. If the shareholders are claiming the Qualified Business Income deduction and choose to aggregate (combine) businesses for purposes of computing the QBI deduction, type a unique number in the **Potential Business Aggregation Number (PBAN)** box. Use this same number on the screen for each business that potentially could be aggregated. To create more than one aggregation group, use a different PBAN for each separate group.
- Type a number in the **Business Aggregation Number (BAN)** check box if the corporation entity elects to aggregate (combine) businesses for purposes of computing the Qualified Business Income deduction. Type the same number in this field as you put in the **BAN** field each business that is to be in the aggregation. (If there will be more than one aggregated group, put in the **BAN** field on screen **1** the number of the group the main entity will be aggregated with.)

For more information on these fields, turn to “Passing Through QBI Information” on page 35, “Denoting Service Trades or Businesses” on page 36, and “Aggregation, BANs, and PBANs” on page 39 of this document, or click in the box and press F1.)

## Income and Deductions

Income and deductions are entered primarily on the **INC (Income)** and **DED (Deductions)** screens.

### Gross Receipts

Enter gross receipts or sales (line 1a of Form 1120S) and returns and allowances (line 1b) on the **INC** screen. The program calculates gross receipts or sales after returns and allowances based on gross receipts, sales, and any direct entry on line 1b.

**NOTE** The IRS does not require a detail (CTRL+W) worksheet 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 line that does not *require* a detail worksheet. For more on the trial balance worksheet, see “Importing Trial Balance Information” on page 74.

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

For cost of goods sold (COGS), complete screen **A (Form 1125-A, Cost of Goods Sold)**.

**NOTE** For information on completing lines 9a through 9f of screen **A**, click in a 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** fields on screen **L (Assets, Liabilities and Equity)** are overrides. Anything entered there overrides the inventory data that flows 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 excluding depreciation, and one for depreciation (see figure below).

In the field on the **Depreciation** line, 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).

3	Non-W-2 labor hired.....
	W-2 wages paid.....
4	Additional section 263A costs.....
5	Other costs - excluding depreciation.....
5	Depreciation.....
7	Inventory at end of year.....

Note that the **Depreciation** field on screen **A** is an override field; an entry here overrides the calculations from the **4562** screen. Amounts entered in this field automatically adjust the total depreciation flowing to page 1 of Form 1120S.

Entries in the **Other costs - excluding depreciation** field opens a Detail Worksheet.

## NOTE

Line **14b** on the **DED** screen, "Depreciation claimed elsewhere on return," is for Form 4562 depreciation included on screen **A** and elsewhere on the return. This is an adjustment field. No entry is required in this field as the program makes the adjustment for depreciation claimed elsewhere on the return automatically.

### Importing Trial Balance to Form 1125-A

If using the trial balance import feature (see "Importing Trial Balance Information" on page 74), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* into the "depreciation" fields in data entry. 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.

## Ordinary Gains and Losses

The amount on line 4 ("Net gain (loss) from Form 4797, Part II, line 17") of Form 1120S flows from Form 4797, Gains and Losses from Sales of Assets. Amounts can also flow from screen **4562**, but only if that screen shows assets sold and property type. Screen **4797** is available from the **Assets-Sales-Recapture** tab of the **Data Entry Menu**.

## Other Income (Loss)

Enter all amounts for line 5 of Form 1120S, "Other income (loss)," on the **INC** screen. **INC** screen data is displayed on attached statements in View/Print mode.

Adjustments are made to the appropriate deduction/expenses 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

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

- Amount of credit for tax on fuels
- Interest income on receivables
- Recoveries of bad debts
- Section 481 adjustments
- State tax refund
- Income from insurance proceeds

To enter income or loss from a partnership, estate, or trust, use screen **K1P** or **K1F**. (Click the screen links on the **INC** screen or access them from the **Other Forms** tab).

To enter additional sources of income not shown, use the **Other Income (itemize)** field on the **INC** screen. (An entry in this field creates a Detail Worksheet.)

### 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.

### Compensation and Wages

Enter shareholder compensation and employee wages on the **DED** screen. Drake Tax has two fields each for officer compensation and employee salaries/wages: one for non-shareholders, and one for shareholders.

## NOTES

The **Salaries and wages to non-shareholders** field is an adjustment field. An amount entered here is combined with any amount entered in the **Labor hired** field on screen **F**.

The **Officer compensation – shareholders** and **Officer compensation – non-shareholders** fields are override fields. Entries in these fields override entries on screens **E** and **K1**.

### Credit Adjustments

A credit adjustment is made for the following forms:

- Form 5884, Work Opportunity Credit
- Form 8844, Empowerment Zone and Renewal Community Employment Credit
- Form 8845, Indian Employment Credit
- 8994, Employer Credit for Paid Family and Medical Leave
- 8932, Credit for Employer Differential Wage Payment

The adjustment is indicated on Form 1120S with the “Wks Sal/Wage” literal (Figure 1). Actual adjustments are shown on the “Wks Sal/Wage” worksheet in View/Print mode.

4	Net gain (loss) from partnerships, estates, trusts, etc. (attach Form 4797)	4	12,345
5	Other income (loss) (see instructions - attach statement)	5	37,231
6	Total income (loss). Add lines 3 through 5	6	133,978
7	Compensation of officers (see instructions - attach Form 1125-E)	7	113,877
8	Salaries and wages (less employment credits)	8	59,598
9	Repairs and maintenance	9	
10	Bad debts	10	
11	Rents	11	

Figure 1: ATT\_SSW literal on Form 1120S

## Compensation of Officers (Form 1125-E)

Enter officer information (name, address, ownership percentage, compensation) for officers who are shareholders on the **K1** screens as you are entering shareholders' information. Use screen **E** to enter officer information and compensation amounts for officers who *are not* shareholders.

For details on entering officer information on screen **K1**, see "Officer and Shareholder Data Entry" on page 42.

### Officer Information

Use screen **E** to enter officer information and compensation amounts for officers who are not shareholders. Press PAGE DOWN to enter additional officers. Screen **E** totals are calculated and carried to line 7 of Form 1120S.

The total of officer compensation (shareholders and non-shareholders) can be entered in the **Officer Compensation** override fields of the **DED** screen (generally used when Form 1125-E is not required). An entry in those fields override any calculations from screen **E** of the 1120S but does not change the calculations on Form 1125-E.

For privacy and security, you can "truncate" (hide certain digits of) SSNs on Form 1125-E by entering only the last four digits of the officers' SSNs in the **ID number** field.

## NOTES

To do so, enter the first five digits of the SSN as "0"s (zeros), and then enter the final four digits of the SSN. Press CTRL+F to "force" the program to accept the number.

For example, enter SSN 123-45-6789 as 000-00-6789. Press CTRL+F.

### Screen E Check Boxes

Screen **E** has two check boxes: **Signs return** and **Books in care of**. Mark the applicable box on the screen that identifies the officer who signs the federal or state returns, and the officer who is the contact person for the books.

## NOTE

If you mark the **Signs return** check on box screen **E**, that officer's information flows to the **PIN** screen automatically, eliminating the need to re-enter that information. You would still have to enter PINs for the ERO and the officer and signature date on the **PIN** screen for e-file purposes.

### Ownership and Participation

The **Ownership and Participation** fields on either screen **K1** or screen **E** are required. (See NOTE, following.)

Fields are as follows:

- **Total** — Enter the officer's ownership percentage.
- **Common** — Enter the percentage of common stock owned by the officer.
- **Preferred** — Enter the percentage of preferred stock owned by the officer.
- **Time** — Enter the percentage of time the officer devotes to the corporation.

Enter percentage amounts in whole numbers. For example, enter 40 for 40%.

**NOTE** If using screen **E** for non-shareholding officers, enter 0 in the **Common** and **Preferred** fields.

## Repairs and Maintenance

Enter repair and maintenance costs on the **DED** screen. An amount entered there is combined with the amount, if any, entered in the **Repairs and maintenance** field on screen **F**.

## Bad Debts

Use the **Bad debts** field on the **DED** screen to enter the total debts that became worthless in whole or in part during the year, but only to the extent that such debts related to a trade or business activity.

**NOTES** Enter deductible nonbusiness bad debts as a short-term capital loss on screen **8949 (Sales and Other Disposition of Assets)**. Cash-method S corporations 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 corporation rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the entity, and then complete Part V of the **4562** (screens **8** and **9**).

**NOTE** The **Rents** field is an adjustment field. An amount entered here is combined with the amount, if any, entered in the **Rent** fields on screen **F**.

## Taxes and Licenses

Enter tax and license amounts on the **Taxes and License** screen (accessed by clicking the **Detail** link on the **DED** screen). Amounts are combined and the sum generated on worksheet “Wks Tax/Lic” (available in View/Print mode) and flow to Form 1120S, line 12 (“Taxes and licenses”). Note that credit from Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) should be entered on screen **8846**, which is accessible via the **Detail** link on the **DED** screen or from the **Credits** tab of the **Data Entry Menu**. These amounts also appear on the “Wks Tax/Lic” statement in View/Print mode and is referred to on line 12 with the literal “Wks Tax/Lic” reference (see circle in figure on the next page).

To keep the notification from appearing on line 12 of the return, go to the **PRNT** screen and select **Suppress printing of form and attachment references**.

..... ▶	6	188,887
.....	7	99,999
..... Wks Sal./Wage	8	(1,737)
.....	9	
.....	10	
.....	11	
..... Wks Tax/Lic	12	3,333
.....	13	
(attach Form 4562) .....	14	
.....	15	
.....	16	

The fields on the line for **State/City Income taxes** and **St/City franchise taxes** on the **Detail** screen are override fields. Amounts entered in these fields override amounts calculated from entries on the **ES** screen and flow to the “Wks Tax/Lic” worksheet.

State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen flow to 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.

## Interest

Using the 1120S instruction guidelines, enter interest expense on the **DED** screen. Note that the **Interest expense** field is an adjustment field. Any amount entered here is combined with the amount, if any, entered in the **Interest** fields on screen **F**.

See the field-level help (click in the **Interest expense** field and press F1) for more information.

## Depreciation

Enter depreciation on the **4562** screen. Make a selection from the **For** drop list to associate the depreciable item with the correct form or activity. Data from the **4562** screens is calculated and it then flows to Form 1120S and to the selected schedules or forms.

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

### Line 14, Depreciation

Line 14 of Form 1120S is reserved for depreciation that (1) is from Form 4562, and (2) is claimed on Form 1125-A or elsewhere. While data from the **4562** screen flows to this line, the program also provides field **14b** on the **DED** screen specifically for depreciation that is claimed elsewhere.

Both lines **14a** and **14b** on the **DED** screen are adjustment fields.

- **Line 14a** — See field-level help for further instructions and information on how this field ties in to Form 4562.
- **Line 14b** — Drake Tax recommends entering depreciation on the **4562** screen, and then selecting **COGS** from the **For** drop list at the top of that

screen. You can also use screen **A** (rather than the **DED** screen) to enter depreciation claimed on Form 1125-A. An entry on screen **A** adjusts any entry on line **14b** of the **DED** screen and is calculated into the total deductions for page 1 of Form 1120S. If there is an entry on line **14b** of the **DED** screen but not on screen **A**, only the line **14b** amount is calculated into total deductions.

## Depletion

Enter depletion amounts on the **DED** screen. If the corporation claims a deduction for timber depletion, complete and attach Form T, Forest Activities Schedules. (Attach as a PDF file to e-filed returns. See “The PDF Attachment Process” on page 71.) Do not deduct depletion for oil and gas properties. (Each shareholder should figure depletion on these properties under section 613A(c) (11).)

## NOTES

- Form T, Forest Activities Schedules, is not available in Drake Tax. Visit [its.gov](http://its.gov) to download the form.
- For oil and gas depletion, see “Oil and Gas Depletion Worksheet” on page 41.

## Advertising

Enter advertising expenses on the **DED** screen.

## Pension and Profit-Sharing

Enter pension and profit-sharing expenses on the **DED** screen. Click inside the field for line 17 and press F1 for information on what expenses to enter. The program reduces the expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs. Note that the field for line 17 is an adjustment field. An amount entered here adjusts the amount flowing to Form 1120S from Schedule F, line 23.

## Employee Benefits Program

Enter on line 18 of screen **DED** the total for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation’s stock. Do not include with these amounts anything that is an incidental part of a pension, profit-sharing, etc., plan or amounts reported elsewhere on the return.

Report amounts paid on behalf of more than 2% shareholders on line 7 (“Officer compensation”) or 8 (“Salaries and wages”) of the **DED** screen. A shareholder is considered to own more than 2% of the corporation’s stock if that person owns, on any day during the tax year, more than 2% of the outstanding stock of the corporation or stock possessing more than 2% of the combined voting power of all stock of the corporation.

Note that the field for line 18 is an adjustment field. An amount entered in here adjusts the amount flowing to Form 1120S from Schedule F, line 15.

## Other Deductions

Enter all other deductions in the “Other deductions (itemize)” field on the **DED** screen. Drake Tax incorporates the total into line 19, “Other deductions,” on Form 1120S.

The following deductions, credits, adjustments, and exclusions also flow to line 19:

- Amortization from Form 4562
- 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
- Credit from Form 6765, Credit for Increased Research Activities
- “Amortization” from screen **K1F**, line 9, code “C”
- “Other expenses” from screen **F**, line 32

## Tax and Payments

Screen **4** has fields for completing the “Tax and Payments” section of Form 1120S. Note that some fields are overrides fields. Press F1 to view more information on a field.

## Net Passive Income

Line 22a, “Excess net passive income or LIFO recapture tax,” could apply to an S corporation if it was formerly a “C” corporation or if it engaged in a tax-free reorganization with a “C” corporation.

To determine if the corporation must pay the tax, complete the worksheet fields on the lower half of screen **4**. If completing the IRS worksheet, enter the worksheet results on screen **4**. Enter LIFO recapture directly on screen **4**.

**NOTE** To force the line 22a worksheet to be printed, select the applicable box on screen **4**.

## Schedule D

Use screen **8949** (available from the **Asset-Sales-Recapture** tab of the **Data Entry Menu**) to enter capital gains and losses. The net gain from screen **8949** is carried to line 10, “Other income” of Schedule K (unless a “Property type” is selected on screen **8949**, then the net gain flows to lines 7 and 8 of Schedule K). Use screen **8949** to enter data for Parts I and II of Schedule D (Form 1120S), Capital Gains and Losses and Built-in Gains. Use the **D2** screen for Part III, “Built-in Gains,” of Schedule D (Form 1120S). For information on using screen **8949** and the 8949 import feature in Drake Tax, see “Capital Asset Reporting” and “Form 8949 Imports” in Chapter 5 of the *2019 Drake Tax User’s Manual*.

Put in the total from a brokerage statement (Form 1099-B) for short-term transactions for which basis was reported and for which there are no adjustments on line 1a of screen **D2**; long-term transactions are entered on line 8a.

## Estimated Taxes

Form 1120S does not have a federal estimated tax voucher. Estimated tax payments are required only in certain situations. An S corporation must make electronic deposits of employment, excise, and corporation income taxes using the Electronic Federal Tax Payments System (EFTPS).

### NOTE

Most states do not allow estimate payments outside of the EFTPS system. View the field help for the **e-file** check box in the **e-file/Electronic Fund Withdrawal** section of screen **ES** for a list of states that allow e-filed payments.

**ES Screen** The **ES** screen (available from the **Miscellaneous** tab or from the **ES Screen** link on screen **4**) provides a place to enter federal and state estimated taxes paid in 2019. If the return was updated in Drake Tax from 2018, this information flows from the 2018 return. Note that this information is overridden by any entry in the **Current-year estimated tax payments** field on screen **4**.

Use the **ES** screen for 2020 estimated payments. Future-year amounts appear on the “Estimate Summary” worksheet, generated with the return. (You must enter amounts in the “voucher” fields in the **Estimate amt** column to generate the Estimate Summary worksheet.) To enter the amount to be credited, use the **Amount of overpayment to apply to 2020** field. Note that this information is overridden by any entry in the **Amount to be credited to next year’s estimated tax** field on screen **4**.

The **ES** screen also provides a way to e-file state estimated tax vouchers and payments, which is required in some states. For estimated taxes from multiple states or cities, press PAGE DOWN and go to a new **ES** screen.

For details on using the **ES** screen for filing federal estimated taxes and paying state estimated taxes, see “Estimated Taxes” in Chapter 5 of the *2019 Drake Tax User’s Manual*.

## Payments with Extensions

To make a payment with an extension request, enter the amount being paid in the “Amount paid with extension” field at the bottom of the **7004** screen (available from the **Other Forms** tab or from a link on screen **4**). If an extension was previously requested and a payment was made then, enter the amount paid on screen **4**, line 23b.

For electronic payments on extensions, the program produces Form 8878-A, the IRS e-file Signature Authorization for Form 7004. See “Filing an Extension” on page 27.

## Tax Paid on Fuels

Use screen **4136** (available from the **Credits** tab of the **Data Entry Menu**) to enter information for Form 4136, Credit for Federal Tax Paid on Fuels. Note that this form

consists of four pages – pages 1 and 2 (lines 1 through 8f) on the first screen in Drake Tax. Press PAGE DOWN to reach pages 3 and 4 (lines 9 through 16b). Press PAGE UP or PAGE DOWN to toggle back and forth between the screens.

## Underpayment of Estimated Tax

For underpayment of estimated tax, complete all applicable fields on screen **2220**. (Note that this screen, available from the **Other Forms** tab of the **Data Entry Menu**, also consists of two screens.)

**NOTE** The program produces the Worksheet for the Underpayment of Estimated Tax by Corporations (“Form 2220 - Calculations” worksheet in View/Print mode) to explain the calculations for the 2220 penalty.

## Late-Filing Penalty

Drake Tax does not calculate a late-filing penalty. You can choose to enter a late-filing penalty on screen **4**, line 24, “Estimated tax penalty.”

**IMPORTANT** If you enter a late-filing penalty on screen **4**, line 24, then Form 2220, Underpayment of Estimated Tax, will *not* be included in the e-file transmission.

## Direct Deposit of Refunds

The IRS requires that Form 8050, Direct Deposit of Corporate Tax Refund, be submitted with an e-filed return in order for a corporation’s refund to be directly deposited. To complete this form in Drake Tax, use the **DD** screen (available from the **General** tab of the **Data Entry Menu**).

The screenshot shows a form titled "Account Information" with the following fields and options:

- Account #1
- Federal Account and State (if same as Federal)
- Deposit selection: Federal selection..... [dropdown] State/city selection..... [dropdown]
- Name of financial institution [text box]
- RTN [text box]
- Account number [text box]
- Type of account:
  - Checking  Savings
  - Checking  Savings
- Repeat Account Information [button]

**Figure 2:** Federal section of **DD** screen (also **8050** screen)

When filling out screen **DD** (Figure 2):

- If the federal refund is to go to the account listed, select **Yes** for the **Federal Account** selection; otherwise, select **No**. (If neither is selected, the program uses the default selection – **Yes**.)
- If a state refund is to go to the account listed, select the state abbreviation from the **State/city selection** drop list.

- Enter the name of the financial institution, the routing number (RTN), the account number, and the type of account (**Checking** or **Savings**). (For validation of entries, the RTN, account number, and type of account must be entered twice.)

If receiving refunds from more than one state tax authority, use the **State Account** sections on the **DD** screen to indicate where other state refunds should be deposited.

## International ACH Transactions

State taxing agencies have added foreign account questions to their forms to comply with NACHA rules regarding International ACH transactions (IAT); however, processing IAT is not yet supported by any federal or state tax authority. If you were to indicate that the account was outside the U.S., the state tax authority would automatically ignore the account information and either issue a paper-check refund, or contact the corporation requesting the payment of a balance due via check or domestic bank account. If you indicate that an account is located outside of the U.S., Drake Tax generates an EF Message instructing you to choose an account located in the U.S.

For more information, see **Screen Help** on the **DD** screen and **PMT** screen.

## Electronic Funds Withdrawal (Direct Debit)

Use the **PMT** screen, accessible from the **General** tab, to indicate that the balance due for an e-filed return should be withdrawn (direct-debited) from an account.

## Program Defaults and Overrides

By default, the program indicates that the entire balance due (the “Amount owed” line of Form 1120S) is to be withdrawn on the return due date. To indicate otherwise, complete the “Requested payment amount” and the “Requested payment date” override fields of the **PMT** screen for the applicable payment.

If the return is e-filed on or before the due date, the requested payment date cannot be later than the due date. If the return is transmitted after the due date, the requested payment date cannot be later than the current date.

## Required Information

A **Withdrawal selection** (item #1 in Figure 3 on page 27) is required if the program is to direct federal and state tax authorities to withdraw funds from the taxpayer’s account.

The screenshot shows the 'Account Information' section of a software interface. It includes a dropdown for 'Federal Account and State (if same as Federal)', a table for account details, and checkboxes for payment types. Three red circles are overlaid on the image, labeled 1, 2, and 3, pointing to specific fields.

Name of financial institution	RTN	Account number	Type of account
First Bank	122105061	123456	<input checked="" type="checkbox"/> Checking
Repeat Account Information			
	122105061	123456	<input checked="" type="checkbox"/> Checking

Payment options section:

Federal: Federal payment amount..... = [ ] Requested payment date... = [ ] Daytime phone n

3 Payment is for.....  1120S  7004  Amended 1120S

State: State payment amount..... = [ ] Requested payment date... = [ ] Daytime phone n

**Figure 3:** Required fields on **PMT** screen: withdrawal selection (1); account information (2); specified return (3)

The name of the financial institution, routing number (RTN), account number, and account type are required. As is the case with the **DD** screen, the **RTN**, **Account number**, and **Type of account** data must be entered twice (item #2 in Figure 3).

Finally, the **PMT** screen must indicate the return to which the payment data applies (item #3 in Figure 3). Put a check mark in the box of the applicable return type.

## Withdrawal from Multiple Accounts

Only one account can be designated for direct debit of funds for payment of federal taxes or state taxes. To have state amounts withdrawn from an account other than the account indicated for federal payments, complete the fields in the **State Account** sections of the **PMT** screen.

**NOTE** Neither the federal nor the state balance due can be paid from more than one account.

## Filing an Extension

Calendar year returns are due on March 15, 2020. By filing Form 7004, an S corporation can extend the deadline six months to September 15. Fiscal year returns are due on the 15th day of the third month after the end of their tax year. Form 7004 extends the deadline six months.

For electronic payments with extensions, the program produces Form 8878-A, the IRS e-file Electronic Funds Withdrawal Authorization for Form 7004.

To file an 1120S extension, use either of the following options:

- Go to the **7004** screen in Drake Tax (available from the **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 (available from either the **General** or **Miscellaneous** tabs) and select **Prepare Form 7004 based on screen 1 data**.

## Signing the Return

Electronic PIN signatures are required to e-file returns. All fields on the **PIN** screen *must* be completed to e-file a return, including the title and signature (name) of the officer signing the return.)

### NOTE

If you mark the **Signs return** check box either screen **K1** or screen **E**, that officer's information flows to the **PIN** screen automatically, eliminating the need to re-enter that information. You would still have to enter PINs for the ERO and the officer and signature date on the **PIN** screen for e-file purposes.

An 1120S return must be signed and dated by one of the following individuals:

- The corporation's president, vice president, treasurer, assistant treasurer, or chief accounting officer
- Any other corporation officer, such as a tax officer, who is authorized to sign

If the return is prepared by a paid preparer, the preparer must complete the required information on the **PIN** screen. If it is prepared by an employee or officer of the corporation, open screen **1** and select **NONE** in the **Firm #** and **Preparer #** fields.

To have the preparer's name and address information displayed on the printed return:

- If the return preparer and ERO (entered in **Setup > ERO**) are the same:
  - Go to **Setup > Preparer(s)** and ensure that the **Alternative Electronic Signature** box is marked for the preparer.
  - Complete the **PIN** screen for the return.
- If the return preparer and ERO are *not* the same:
  - Go to the **PRNT** screen for the return 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 > ERO & Account Information** must be completed 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.

## Amending a Return

Amended 1120S can be e-filed using Drake Tax.

### 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 of the *2019 Drake Tax User’s Manual*.

To file an amended 1120S return:

1. Go to screen **1** and select **Amended return** in section **H**.
2. Make changes as applicable to forms and schedules.
3. Go to the **EF** screen and mark the **Amended 1120S** check box on the left side of the screen.
4. Go to screen **X** (available from the **Miscellaneous** tab of the **Data Entry Menu**) and, using a fresh **X** screen for each line changed in the 1120S, describe and explain the changes. Press **PAGE DOWN** to open a new **X** screen.

Type **AMD** or **X** into the selector field and press **ENTER**.

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

### NOTE

All K-1s are amended when an 1120S return is amended, and the “Amended K-1” box on all Schedules K-1 is marked by default. To override this default, go to the **PRNT** screen and mark **Do NOT check amended box on Sch. K-1**.

## Additional Information

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

### Schedule B

Enter the accounting method, principal business activity, and product or service on screen **1**. This information flows to lines 1 and 2 of Schedule B.

Use screen **B** (accessible from the **General** tab of the **Data Entry Menu**) to answer questions 3 through 15 of Schedule B.

Select **B1** from the **Data Entry Menu** or enter **B1** in the selector field and press **ENTER**.

If the answer to question 3 on screen **B** is “Yes,” complete screen **B1** (press **PAGE DOWN** from screen **B**). If the S corporation owned, directly, 20% or more, or owned, directly or indirectly, 50% or more of the total stock issued and outstanding of any foreign or domestic corporation, click the **B4A Screen** link on screen **B** to enter information about the domestic or foreign corporation owned. (You can enter information for up to 10 corporations per **B4A** screen; to add more, press **CTRL+PAGE DOWN**.)

If the S corporation owned, directly, 20% or more, or owned, directly or indirectly, 50% or more in the profit, loss, or capital in any foreign or domestic partnership

(including an entity treated as a partnership), or in the beneficial interest in a trust, click the **B4B Screen** link on screen **B** to enter information about the domestic partnership owned. (You can enter information for up to 10 partnerships per **B4B** screen; to add more, press CTRL+PAGE DOWN.)

## Business Interest Expense Limitations

For tax years beginning in 2018, 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. Click the **8990** link on the **Other Forms** tab of the **Data Entry Menu**.

Before entering data in the fields on screen **8990**, enter data all other screens needed to complete Form 1120S. View the return (press CTRL+V) and note the “Income (loss) reconciliation” on page 4, line 18, of Form 1120S, then return to this screen and enter the taxable amount on line 6. Complete all other appropriate fields on this screen.

## QOF Investments

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

**Form 8996** A corporation 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 corporation was organized to operate as a QOF. **Part II** determines whether the corporation 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.

**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.

## State-Specific Information

**Resident State** The program automatically generates a return for the corporation's resident state. Use screen **2** to enter company information as it should appear on the state return.

### NOTES

The **Company Information** fields on screen **2** apply for the resident state only.

Click the screen **2** link from the **States** tab or enter 2 in the selector field and press ENTER to open screen **2**.

**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, numbers for identification, and fields for miscellaneous data as may be required by a state.

**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 any of the following entities:

- Registered office
- Principal place of business
- "Books in care of" information

Screen **2** also has fields for the name, title, mailing address, email address, ID number, and telephone number of the S corporation's contact person.

**Other States** Data for other states must be entered manually in state data entry. To access state data entry, select the **States** tab from the **Data Entry Menu** and choose a state, or enter 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 (Figure 4 on page 32). This screen 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 entry 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 will continue to be available next year in Drake '19, but will be used to override data entered on the **APPT** screen. No state apportionment-related screens will be updated from 2018 to Drake '18.

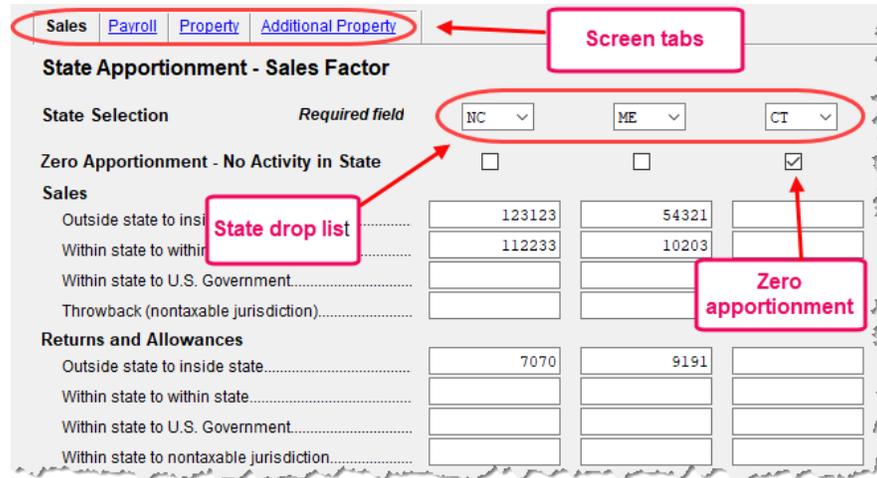


Figure 4: APPT Multi-State Apportionment screens

NOTE

Mark the **Zero Apportionment** check box (Figure 4) 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** tabs for each state selected (Figure 4). These screens and their uses are listed in Table 1:

Table 1: APPT Screens

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

NOTE

The **Ending** amount entered on the **Property** and **Addition Property** screens in Drake '18 will become the **Beginning** amount for property on the **APPT** screen when the client’s return is updated next year in Drake '19.

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 when using the reconciliation worksheet. Not every item appearing on the federal return may be sub-

ject 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.

## Schedule K: Shareholders' Pro Rata Share Items

Screen **K**, which consists of five "tabbed" screens, can be used to enter data for Schedule K, Shareholders' Pro Rata Share Items. Note that many **K** fields are adjustment fields. Press F1 inside a field to see what amounts are adjusted from elsewhere in the program.

### Navigation

Screen **K** has separate tabs for data entry of **Income**, **Deductions**, **Credits**, **AMT and Basis**, and **Other Information** (item #1 in Figure 5). Click the tabs at the top of the **K** screen or press PAGE UP and PAGE DOWN to navigate among the **K** screens.

Figure 5: Screen **K** is a tabbed screen (item #1)

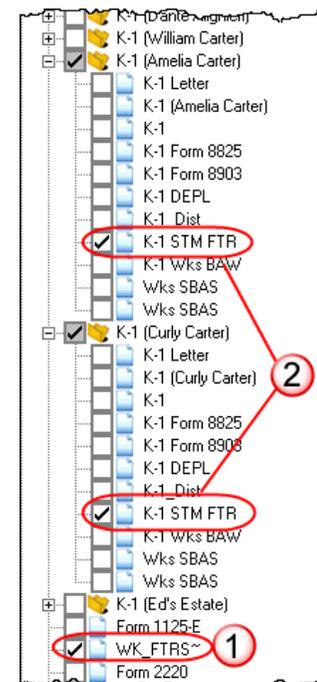
Each of the tabs includes "Other" items, such as "Other" income, "Other" deductions, "Other" credits (see item #2 in Figure 5), allowing a detailed supplemental K-1 statement (Figure 6 on page 34).

Schedule K-1 Supplemental Information		2019
Shareholder's Name <b>William Carter</b>		Shareholder's ID Number <b>400-00-6665</b>
Name of S Corporation <b>Ess Bee Ess Corp</b>		S Corporation's EIN <b>40-0001120</b>
<b>Form 1120S Schedule K-1 - Line 10</b>		
<b>Code</b>	<b>Description</b>	<b>Amount</b>
H	Other Income (Loss)	1,412
	Gain from QSB stock	1,412
	<b>Total</b>	<b>1,412</b>
<b>Form 1120S Schedule K-1 - Line 13</b>		
<b>Code</b>	<b>Description</b>	<b>Amount</b>
F	Other Credits	1,864
	3800 General Credit from Large Partnership	1,412
	8830 Enhanced Oil Recovery Credit	31
	8900 Railroad Maintenance Credit	83
	8906 Distilled Spirits Credit	55
	8923 Mine Rescue Team Credit	82

Figure 6: More detailed K-1 statements with Schedule K "Other" items

Information on foreign transactions is entered on a separate **KFT** screen, accessible from the **Foreign** tab of the **Data Entry Menu** or from the **Schedule K Foreign Transactions** 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\_FTRS," (item #1 in figure at right), listing all the foreign transactions for an S corporation. A separate "K-1 Foreign Transaction Statement" ("K-1 STM FTR"; item #2 in figure at right) is also generated, reporting these foreign transactions for the individual shareholder.



## NOTE

Because charitable contributions are separately stated to the shareholders, there is no “Charitable Contributions” line on the 1120S return. Charitable contribution information belongs instead on Schedule K. Enter charitable contributions on the **Deductions** tab of screen **K**, in the line **12a - Charitable Contributions** fields. (These are adjustment fields, adjusting entries made elsewhere in the return.) Any contribution limitation is made at the shareholder level.

## Passing Through QBI Information

For tax years beginning after 2017, individuals, estates, and trusts that are shareholders in an S corporation 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.

*The S corporation itself* is not eligible for the QBI deduction; instead, the corporation must pass the necessary information through to its *shareholders* with a statement attached to 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 separately stated 199A 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

So you can report this information, Drake Tax has included in the 1120S package screen **199A, Qualified Business Deduction by Activity**. 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 shareholder'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 corporation operates as a single business entity and that all of the income on Form 1120S, line 21, "Ordinary business income (loss)," is Qualified Business Income for purposes of computing QBI deductions. If the amount on line 21 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 21 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.

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

## Denoting Service Trades or Businesses

Specified service trades or businesses are generally excluded from the definition of qualified trade or business. If the corporation is a Specified Service Trade or Business (SSTB), the shareholder could be subject to income limitations mentioned earlier; you

must, therefore, mark the box on screen **1** denoting that this S corporation 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 shareholders on screen **199A, Qualified Business Income Deduction**. On that screen, if the corporation operates more than one business, select **1120S** 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 Codes:  
**199A** or **K199**

On each screen **199A**, 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 information in the appropriate fields. To allocate the amounts and activities to the various shareholders, 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 corporations that operate multiple businesses, select "1120S" from the "For" drop list; otherwise, select the screen this activity pertains to.

For: 1120 (1120, K1P, K1F)  
 Multi-form code: 2 (1-999; 1 is assumed if left blank)  
 EIN: 41-4141414  
 Potential Business Aggregation Number (PBAN): 3  
 Business Aggregation Number (BAN): 4  
 Trade or Business name: Partners in Grime  
 Treat as a "specified service business"  
 Ordinary business income (loss): 1111 SA  
 Rental income (loss): 2222 SA  
 Royalty income (loss): 3333 SA  
 Section 1231 Gain/Loss:

Figure 7: QBI 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 1120S 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, 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 40.

An S corporation 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 an S corporation aggregates a group of trades or businesses, the shareholders must abide by that aggregation. If the shareholders wish to choose their own aggregations, use the “Potential” Business Aggregation Number (PBAN) instead of the BAN. See “Potential BANs” on page 40 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 1120S corporation 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 corporation *wants* to aggregate them, then enter the same number in the **BAN** fields of the different businesses in the 1120S 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 the changes of fact or circumstance 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 1120S corporation aggregated with the other trades and businesses.

**Potential BANS**

On their Individual (1040) returns, shareholders 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 corporation must tell the shareholders 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. (Shareholders can choose whether or not to aggregate and which trades or businesses can be in the aggregation. See the “IMPORTANT” note on page 39.)

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 37.) In Figure 8, this trade can potentially be aggregated with others also using the PBAN “3.”

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  
 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 8: 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 corporation potentially qualifies to be aggregated with any other businesses on this 1120S 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 21 of Form 1120S 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 shareholders’ 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



on the **K1** screens flows to Form 1125-E, Officer Information, when Form 1125-E is required.

If the shareholder described on a **K1** screen is the officer who signs the return for the corporation, mark the **Signs Return** check box in the **Officer Information** section. For the officer who keeps the books, mark that box. (See red circle in Figure 10.) This officer's information does not have to be re-entered on the **PIN** screen. (The **ERO PIN**, the "sign's return" officer's **PIN**, and the **Signature Date** fields must still be completed on the **PIN** screen to be eligible for e-file.)

Schedule B-1 information can also be entered on the **K1** screens.

The screenshot shows the 'Officer Information' section with the following fields: Title (President), Date employed in the position from, Date employed in the position to, Signs return (checked), Books in care of (checked), Ownership and Participation table, Officer's deductible compensation (54321), Compensation of officers claimed on Form 1125-A and elsewhere on return, Expense allowance amount (DC only), and Description. The 'Schedule B-1 Information' section includes Responsible Party Name, SSN/EIN, and EIN checkboxes.

Total	Common	Preferred	Time
25 %	25 %	25 %	25 %

**Figure 10: Officer Information and Schedule B-1 fields on the K1 screen**

## NOTE

When you update a 2018 S corporation return in Drake Tax 2019, the information on last year's **OFF** screen flows to the correct **K1** screen.

### Entity Name Field

Item **E** of the **Shareholder Name and Address Information** section of the **K1** screen has a **Name** field for shareholders who are individuals, and an **Entity name** field for shareholders that are not individuals (estates, trusts, tax-exempt organizations, etc.). Putting a name in the **Entity name** field does not automatically change the type of shareholder; to do so, select from the **Type** drop list.

### Rounding Shareholder

Mark the check box on screen **K1** to select which should be the "rounding" shareholder. That shareholder will be the one who receives any balancing amount on Schedule K-1 when the return is calculated.

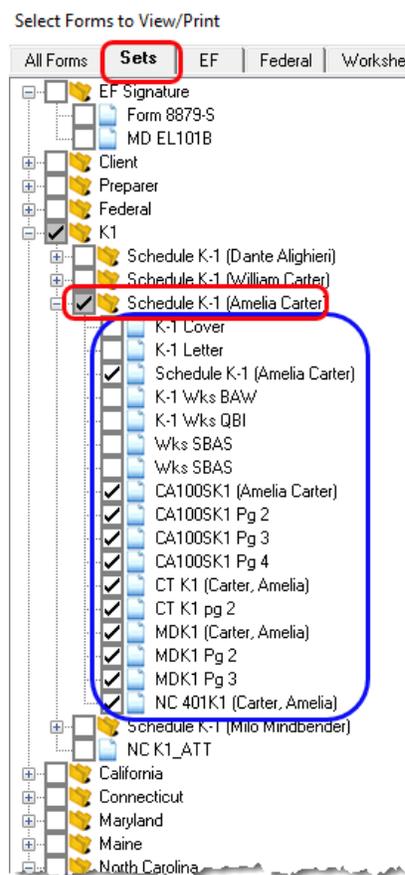
If you do not make a selection, the program designates as the rounding shareholder the last shareholder you entered. If you select more than one rounding shareholder, the program generates a Return Note informing you that:

- You have chosen more than one rounding shareholder
- The first shareholder you entered will be used as the rounding shareholder

Included in the Note is a list of all shareholders you have indicated as rounding shareholders.

The rounding shareholder's place in any sort is determined by the same criteria as the other shareholders when you choose a new sort order.

## 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 shareholder has a “K-1” folder containing federal and state Schedules K-1 and any other forms, worksheets, and letters generated for that shareholder. Scroll down to a state to see similar K-1 folders for each shareholder.

For those who print their K-1 schedules, forms, worksheets, and letters from the **Sets** tab in View/Print mode, click **Sets** (red circle at top of Figure 11) and notice that each shareholder has a separate folder containing *all* generated federal and state K-1 schedules, forms, worksheets and letters (blue square in Figure 11), making it easier to print everything needed for the shareholders.

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

**Figure 11:** All K-1 documents listed under **Sets** tab

### Set Viewing Order

By default, the order in which the shareholders are entered in the program is the order in which they are listed in View/Print mode and on any forms that list all shareholders for an S corporation. You can select the order in which the shareholders appear from the **PRNT** screen (available from the **General** tab or the **Miscellaneous** tab of the **Data Entry Menu**). From the **Sort K1s by** drop list, choose from **Control**, **ID**, **First name**, **Last name**, or **Shares**.

Screen code:  
**PRNT**

Choose to sort by first or last name and the shareholders will be listed alphabetically by the name you choose. (Shareholders that are estates, trusts, tax-exempt organizations, or disregarded entities will be listed by the first letter of the first word or name in the **Entity name** line of screen **K1**.)

### Control Number

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

## NOTE

Control numbers are direct entry only. Drake Tax does not automatically “increment” the control number. You have to enter a unique number on each shareholder’s **K1** screen.

**Screen K1  
Overrides  
tab**

Click the **Overrides** tab (Figure 12) at the top of the **K1** screen to access the K-1 override fields.

K-1 Overrides		Code	Amount
1	Ordinary income (loss).....	=	<input type="text"/>
2	Rental real estate income (loss)....	=	<input type="text"/>
3	Other rental income (loss).....	=	<input type="text"/>
4	Interest income.....	=	<input type="text"/>
5a	Ordinary dividends.....	=	<input type="text"/>
5b	Qualified dividends.....	=	<input type="text"/>
6	Royalties.....	=	<input type="text"/>
12	Other deductions	=	<input type="text"/>

**Figure 12:** The K-1 Overrides section available from the **Overrides** tab of the **K1** screen

## Ownership Changes

Ownership changes are entered on the **OWN** screen, which is accessible through the **OWN Screen** link on line “F” of the **K1** screen or from the **General** tab of the **Data Entry Menu**. To use the **OWN** screen:

- Enter the date of ownership change at the top of the screen.
- Select the applicable shareholder from the **Shareholder’s ID Number and Name** drop list in the **Change in Shares** section. (The drop list consists of the names and ID numbers entered on the **K1** screens and is updated automatically when a new name is entered on a **K1** screen.)
- Enter the change in ownership of shares as a positive amount for an increase and a negative amount for a decrease.
- To enter additional ownership changes, press **PAGE DOWN**.

## NOTE

See field-level help for the **Change in Shares** field and FAQ item “P” in the program for more information on entering ownership-change information.

### Printed Data

A Summary of Stock Ownership worksheet (“Wks SOWN”) is generated in View/Print mode, listing all shareholders, the numbers of shares owned, and the beginning and ending numbers of shares—including any changes in ownership. Because a shareholder’s percentage of ownership may change even if the shareholder’s number of stocks owned does not, all shareholders are listed on the worksheet.

Worksheet “Wks OWN” is also generated for each shareholder who has changes in ownership shares.

## IRS K-1 Codes

A code sheet can be printed with each Form 1120S K-1 to help the taxpayer interpret the various codes used on Schedule K-1. In Blank Forms (**Tools > Blank Forms** from the **Home** window menu bar), the code sheet is listed as “1120SK\_1 Page 3.” To have this sheet printed automatically with all K-1 schedules, from the **Home** window of Drake Tax, go to **Setup > Options > Form & Schedule Options** tab and mark the **Print Page 2 of Schedule K-1...** check box, then **OK**. The codes can also be printed for a specific return by marking the applicable box on the **PRNT** screen, or by selecting “Schedule K-1 - Codes” from the forms “tree” in View/Print mode.

**NOTE** Schedule K-1 codes sheets are displayed in View/Print mode.

The generated Schedule K-1 may include letter codes and asterisks:

- An asterisk with a letter code indicates that multiple items have that 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 that a statement is attached, or that the statement is required (as in the case of “other” amounts).

## Multiple Shareholders

For returns with a large number of shareholders, you have the option to deactivate calculation and printing of the K-1s while working on Form 1120S. This option, which eases the process of reconciling the 1120S, is available from the **PRNT** screen. Mark the box under **K-1 Items to Suppress**.

K-1 Items to Suppress

- Suppress Sch K-1, K-1 letter, K-1 ATT, and WK SBAS
- Do NOT check amended box on Sch. K-1 (from screen 1)
- Suppress K1\_DIST

Before you file the return, go back to the **PRNT** screen, remove this check mark, then calculate the return.

## Override Fields

It is not possible to override the calculations for a single shareholder’s Schedule K-1. To override calculated data, it is necessary to override the calculated amount on *all* Schedules K-1.

**IMPORTANT** Shareholder overrides should not be used for an S corporation except in certain circumstances, such as ownership changes.

## Foreign Addresses

If the shareholder has a foreign address, enter **Province/state, country, postal code** information on the **Foreign** address line of the **Shareholder Name and Address**

**Information** section (along with the street address and city in the **Address** and **City** fields) of screen **K1**. Do not enter anything in the **U.S. State** or **ZIP** fields. Conversely, for a U.S. address, do not enter anything into the foreign address fields.

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

## K-1 Export

Take the following steps to export K-1 information from an 1120S return into the **K1S** screen of a 1040 return:

1. Ensure that K-1 data is entered in the 1120S return and that the 1040 return has been created in Drake Tax. (The **K1S** screen in the 1040 does not have to be created beforehand.)
2. In the 1120S return, go to View/Print mode.
3. Click **K1 Export** in the **View/Print** toolbar. If any K-1s are not eligible to be exported, that list appears. Click **Next** to continue; otherwise, the **Export K1s** window is opened, containing a list of K-1s eligible for export.
4. Remove the check mark from the box to the left of any SSNs you do not wish to export.
5. Click **Export**. When the export is complete, click **OK**.

The K-1 data will be displayed in the 1040 return in the program.

**NOTE** Basis information for individual shareholders should be entered in the 1040 package in Drake Tax; this information cannot be exported from the 1120S package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

## K-1 Import

The K-1 Import feature can import K-1 data from partnership or fiduciary returns into the K-1 “source” screens (**K1P** and **K1F**) of the 1120S package.

1. Open the partnership (1065) or fiduciary (1041) return in Drake Tax and view the return.
2. Click the **K-1 Export** button from the **View/Print** toolbar. If any K-1s are not eligible to be exported, that list appears. Click **Next** to continue; otherwise, the **Export K1s** window is opened, containing a list of K-1s eligible for export.
3. Remove the check mark from the box to the left of any TIN you do not wish to export.
4. Click **Export**.
5. When the export is complete, click **OK**.

The K-1 data flows to the **K1P** or **K1F** screen in the 1120S return.

Box/Code	Amount	Part
11 A	1234	
13 JA	5432	

An **Additional Entries** tab (figure at left) on the K-1 source screens in the 1120S return offers 40 more fields for entering, importing, and exporting additional K-1 items

## 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), from the **Data Entry Menu**, open screen **K1G (Global Supplemental Information)** and enter the information in the **Supplemental Information** text box. This information appears on all printed shareholder K-1s.

To add supplemental information to an individual K-1, open a shareholder’s **K1** screen and click the blue **Supplemental Info** link at the top of the window. In the text box (Figure 13), enter information pertinent to this shareholder. When the return is printed, this information appears on only this shareholder’s K-1.

**Figure 13:** In this example, the information entered on the **K1S** screen, **Supplemental Info** tab, appears on only the K-1 of the shareholder with SSN of 123123123.

## Domestic Production Activities Deduction

Beginning in 2018, a taxpayer is eligible for the DPAD on the federal 1120S return only if it is passed through from a fiscal-year corporation with a tax year that began in 2017. If the DPAD is not from a pass-through fiscal-year entity, complete screen **8903** only if it is needed on the state return.

## 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**. Under the **Client Communications** tab, on the bottom-left of the window, mark the box labeled **Include K-1 letter with returns**, then click **OK**.

From the **K-1 Letterhead** drop list, choose to print the corporation's information in the letterhead, print your firm's logo and information in the letterhead, or to have neither the corporation's or firm's information printed in the letterhead.

## NOTE

Before a corporation's information can be printed on the K-1 letter, you must go to **Setup > Communications Editor**, and from the toolbar, select **Setup > Page Layout** and select **Use letterhead on letters**. The letterhead is derived from data entered on screen 1.

The K-1 letters are signed by the officer selected as "Signs return" on screen **E**, or if no officer is selected on screen **E**, a shareholder selected as "Signs return" on a **K1** screen becomes the signer of the K-1 letters. (If both an officer on screen **E** and a shareholder on screen **K1** are selected as "Signs return," the selection on screen **E** overrides the selection on a screen **K1**.)

Screen codes:  
**COMM** or **K1L**

To have some other shareholder or officer sign the K-1 letter, in each return complete the **Name** and **Title** fields at the bottom of the **COMM** screen (available on the **Miscellaneous** tab). (To have some other shareholder or officer sign the return, complete the **Signature** and **Title** override fields on the **PIN** screen.)

### Producing Letters for Single Return

If no default has been set to produce K-1 cover letters with all returns, you can take the following steps to generate letters for a single return:

1. Open the return and go to screen **COMM** (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. At the bottom of the screen, enter the name and title of the person who will be signing the K-1 cover letter.
3. (optional) The default selection for the letterhead of the K-1 letter is the name and address of the S corporation. To have *your firm's* contact information and logo printed in the letterhead of the K-1 cover letters instead, open the **COMM** screen, select **Print firm info/logo** from the **Information on the K-1 coversheet...** drop list at the bottom of the screen.

Type **COMM** or **K1L** in selector field and press **ENTER**.

## NOTE

Before a corporation's information can be printed on the K-1 letter, you must go to **Setup > Communications Editor**, and from the toolbar, select **Setup > Page Layout** and select **Use letterhead on letters**. The letterhead is derived from data entered on screen 1.

4. (optional) Select **Don't print entity or firm info** from the **Information on the K-1 coversheet...** drop list at the bottom of the **COMM** screen and no letterhead information will appear at the top of the K-1 letters.

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

### 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 in Drake Tax, select **Setup > Communications Editor**. The **Client Communications Editor** is displayed.
2. From the icons on the toolbar, select **Open > S Corporation > Sub S K1 Cover Letter** to view the template of the S corporation 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 K-1. To edit the letter for an amended K-1, from the Communications Editor toolbar select **Open > S Corporation > Sub S K1 Amended** and follow steps 3 and 4 of the previous procedure.

## Shareholder's Adjusted Basis Worksheet

#### NOTE

Basis information for individual shareholders should be entered in the 1040 package in Drake Tax; this information cannot be exported from the 1120S package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

Use the Shareholder's Adjusted Basis Worksheet (**Basis Wks** tab of the **K1** screen; Figure 14 on page 51) to calculate a shareholder's new basis after increases and decreases are made during the current year. The basis of S corporation stock is adjusted on an ongoing basis (unlike for a "C" corporation, where stock basis remains constant unless additional stock purchases are made or stock is sold). A shareholder's beginning basis in S corporation stock is the original capital contribution.

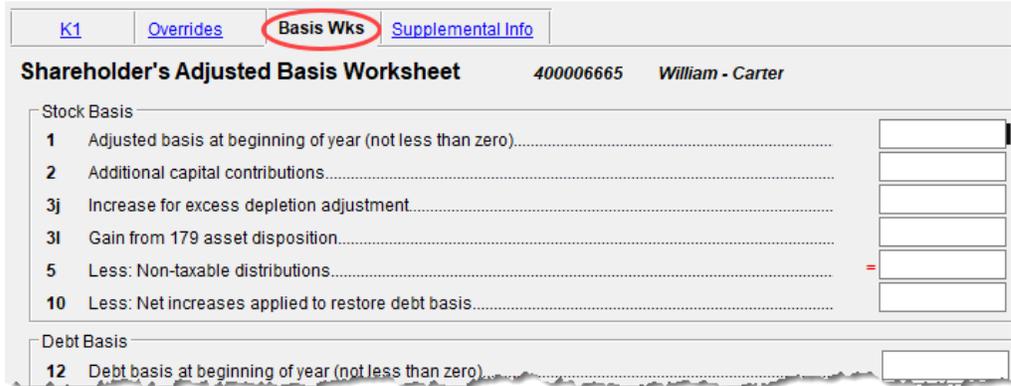


Figure 14: K1 screen tab for accessing the Adjusted Basis Worksheet

**Increases and Decreases**

*Increases* to basis can include additional stock purchases and capital contributions, separately stated income (including tax-exempt income), and depletion in excess of basis of property.

*Decreases* to basis can include distributions of cash or property to shareholders, separately stated losses and deductions, nondeductible corporation expenses, and credit adjustments.

**Annual Update of Shareholder Information**

When the program is updated to the next tax year, the end-of-year basis and shareholder loan amounts are automatically updated to the beginning of the new year. Any loss/deduction carryover is updated to the beginning of the year and its character (ordinary loss, section 179 expense, charitable contributions, etc.,) maintained. The program also tracks the amount of debt applied to losses and the total amount of loss carryforwards.

**NOTE**

If a **K1** screen is marked as final, none of the related screens for that shareholder is updated for the next year.

**Schedule L: Balance Sheet Per Books**

Schedule L is required if the corporation’s total receipts for the tax year or its total assets at the end of the year are greater than \$250,000.

**NOTES**

To force the program to print Schedule L even if not required, mark the **Force-print Schedules L and M-1** box on screen **L** or on the **PRNT** screen.

With the Trial Balance Import feature, you might not need to use screen **L** at all. See “Importing Trial Balance Information” on page 74.

**Schedules L and M-2**

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 52).

**Schedule L - Balance Sheet**

Note: Use the SCH2 screen for required detail on lines 6, 9, 18, 21, and 25. The amounts entered there flow to the appropriate lines when the return is calculated.

NOTE: The retained earnings account can be 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.

NOTE: Auto-balance can be turned off from the PRNT screen.

Force-print Schedules L and M-1

Force-print final end of year **2**

**1**

	(a)	Beginning of Year (b)	BOY Totals	(c)	End of Year (d)	EOY Totals
1 Cash.....		12345	212212		40506	222222
2a Trade notes & accounts recv.....			0			0
2b Less allowance for bad debts.....			(0)			(0)
3 Inventories.....		=	9876		=	4567
4 U.S. government securities.....		4567	12345		3020	3221
5 Tax-exempt securities.....		1010	1111		332	332
6 Other current assets.....		SCH2 Screen	12121		SCH2 Screen	32323
7 Loans to shareholders.....		33333	33333		22222	22222
Mortgage/real estate loans.....		78900	332323		54320	323232

**Figure 15: Beginning- and End-of-Year totals displayed on L screen (#1); force printing end-of-year totals (#2)**

Note that the totals from the balance sheet's subsidiary schedules (**SCH2 screen**) also appear in the **BOY Totals** and **EOY Totals** columns of the **L** screen. (See "The SCH2 Screen," below, for more on using this 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. Before filing, but sure to return to screen **1**, make a selection from the **Resident state** drop list, and then recalculate.

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

Normally, if you mark **Final** on screen **1**, the program "zeros out" the **EOY Totals** column of Schedule L. Mark the check box on screen **L** (item #2 in Figure 15) to force those totals to be displayed in the **EOY Totals** column.

## Flow of Information

Many of the entries made elsewhere on the return flow automatically to the generated Schedule L (for example, inventory information from Form 1125-A). Depreciable asset information from the **4562** screen and intangible assets and amortization also flow to Schedule L.

## 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 the

program. 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.

## NOTES

When a return is updated from one year’s version of Drake Tax to the next – such as from 2018 to 2019 – all line selections are carried to the **SCH2** screen, with prior year’s year-end amounts flowing to the beginning-of-year column in current year’s program.

To access the **SCH2** screen from the L screen, click one of the **SCH2 Screen** links. The **SCH2** screen is also available from the **General** tab of the **Data Entry Menu**.

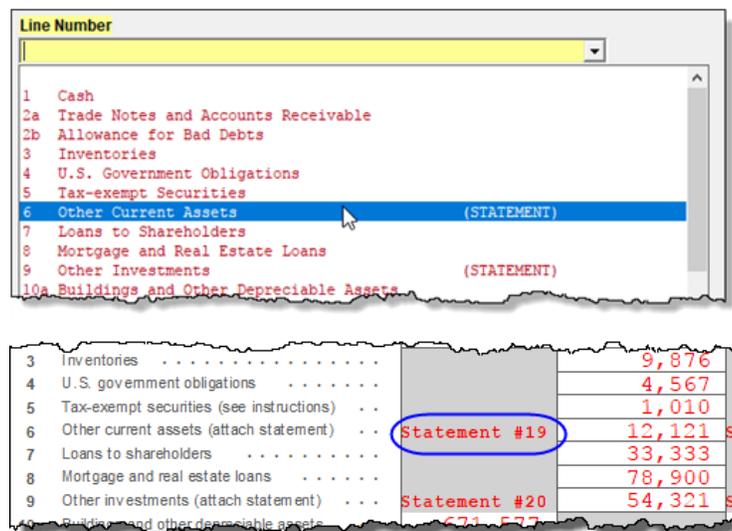
To create a statement for a line, select a line from the **Line Number** drop list of screen **SCH2** and enter a description and its corresponding amount. Once the information is entered, press PAGE DOWN to access a new **SCH2** screen. If more detail is required than can fit into a **Description** field, press PAGE DOWN, and on the new **SCH2** screen, select the same line number and then add to the description.

### Statements

The total of all amounts entered on the **SCH2** screens appear on the L screen in the **BOY Totals** and **EOY Totals** columns. They are also printed on the return as applicable, with references to the corresponding statements.

If a line is *required*, a statement (labeled “STATEMENT” or “STM” in View/Print mode, depending on your Setup Options) is produced and is e-filed with the return.

Note that an e-fileable “STATEMENT” is referenced in Schedule L of the return, as shown in the example of Figure 16.



**Figure 16:** A selection of “Other Current Assets” from the **Line Number** drop list of screen **SCH2** (top figure) attaches a statement and is referenced on the applicable line of Schedule L (bottom figure).

### SCH2 and Trial Balance

Typically, one or more **SCH2** detail screens is needed for Schedule L items. If you are using Drake Tax’s trial balance worksheet feature, be aware that data for the **SCH2** screens cannot be entered directly into the trial balance worksheet, and it cannot be

imported into the data entry. The **SCH2** detail screens must be created apart from the trial balance worksheet.

When the return is produced, Schedule L reflects both the amounts imported from the trial balance worksheets (where direct entry was allowed) and the totals of the **SCH2** screen amounts.

For more information, see “SCH2 Detail” on page 82.

## Autobalance

Autobalance forces Schedule L to balance for both the beginning- and end-of-year amounts. The program adjusts the unappropriated retained earnings amount 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 unappropriated retained earnings by \$100.)

The program makes the adjustment due to differences in the balance sheet. These differences can come from amounts entered incorrectly but are usually the result of one of the following causes:

- An asset was deleted from the **4562** screen (**Depreciation Detail**) instead of being indicated as sold.
- Beginning inventory amounts were adjusted on screen **A**, or ending inventory amounts were entered incorrectly.
- Amounts were erroneously deleted from or changed on screen **L**.

To reconcile the differences, it is best to compare the corporation’s beginning and ending balance sheet amounts for the tax year.

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

## Schedules M-1, M-3 (Reconciliation of Books/Return)

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 taxable income.

Use screen **M1** 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. Examples of both kinds of differences are shown in Table 2.

**Table 2:** Examples Book-to-Tax Differences 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
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

## Depreciation and Amortization Adjustments

The program may make an adjustment for book-to-tax depreciation (or amortization) differences. The calculation is done as described in 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 10b, column a) is subtracted from the “End of Year” accumulated depreciation (line 10b, 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 calculated from the Forms 4562, including any section 179 amounts.)
3. The difference between the “book” and “tax” depreciation amounts is carried to the appropriate form and line.
  - If the “book” depreciation amount is greater than the “tax” depreciation amount, the difference flows to one of the following locations:
    - Schedule M-1, line 3a
    - Schedule M-3, Part III, line 24 (as a negative amount)
    - Form 8916-A, line 2l (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 flows to one of the following locations:
    - Schedule M-1, line 6a
    - Schedule M-3, Part III, line 24 (as a positive amount)
    - Form 8916-A, line 2l (as a positive amount for assets selected on the **4562** detail screen for COGS)

## Schedule M-3

Any domestic S corporation or group of corporations that reports on Schedule L total assets at the end of the corporation's tax year that equal or exceed \$50 million must complete and file Schedule M-3 instead of Schedule M-1. If the S corporation is required to file (or voluntarily files) Schedule M-3, it *must* file Form 1120S and all attachments and schedules, including Schedule M-3.

### Accessing the M3 Screens

The **Schedule M-3** section of the **General** tab of the **Data Entry Menu** provides direct access to the following screens:

- **M3, M32, and M33** — for **Parts I, II, and III** of the Schedule M-3
- **M3S** — for supplemental statements
- **SCH3** — for subsidiary schedules for Schedule M-3 and Form 8916-A
- **8916** — for Form 8916-A, Supplemental Attachment to Schedule M-3

Certain income, deductions, gains, and losses flow from Form 1120S to Schedule M-3 in the program, but all other M-3 data must be entered manually on the **M3** screens.

### NOTE

Parts II and III of Schedule M-3 reconcile financial statement net income (loss) for the U.S. tax return (per Schedule M-3, Part I, line 11) to total income (loss) on Form 1120S, page 3, Schedule K, line 18.

### Screen SCH3

The **SCH3** screen is similar to the **SCH2** screen and is used to provide detailed information for Schedule M-3 and Form 8916-A. It can be used in place of the actual **M3** and **8916** screens.

For more information on using this type of screen, see “The SCH2 Screen” on page 52.

### NOTE

If the corporation's assets do not equal or exceed \$10 million but the corporation wants to voluntarily file Schedule M-3, or if the corporation's assets do not equal or exceed \$50 million but the corporation wishes to file the complete Schedule M-3, go to screen **M3** and make a selection from the **Force print M-3** drop list. Choose to print just page 1 of Schedule M-3 or the complete M-3.

## Schedule M-2 (Analysis of Accounts)

### NOTE

On an 1120S return (unlike an 1120 return), Schedule M-2 is *not* a reconciliation of retained earnings.

For an S corporation return, Schedule M-2 is the analysis of the Accumulated Adjustment Account. Schedule M-2 information can be entered on the **M2** screen and elsewhere in the program, but most information flows to the M-2 automatically. See “Entering Distributions” on page 57.

Schedule M-2 represents a corporation “picture” of the income, losses, and distributions to shareholders and tracks tax-free distributions and helps determine if excess

distributions might be taxable to shareholders. If a shareholder receives more in distributions than he or she has in basis, the result might be taxable.

## Entering Distributions

Code Section 6037 states that an S corporation return must report the amount and date of distributions made to each shareholder. Use the **DIST** screen for reporting date and distribution amounts for Schedule K, line 16d, “Distributions.” In addition to line 16d, the total from the **DIST** screen may flow to Schedule M-2, line 7 (subject to limitations) and to the Schedules K-1 based on the shareholder’s ownership percentage. Schedule K-1 distribution information is displayed on the “K1\_Dist” worksheet produced with the return.

**NOTE** The **DIST** screen is available from the **General** tab of the **Data Entry Menu**, or enter **DIST** in the selector field and press **ENTER**.

## Column A, Accumulated Adjustments Account

The “Accumulated adjustments account” column of Schedule M-2 generally reflects the S corporation’s accumulated undistributed net income after 1982. Non-dividend distributions flow to Schedule M-2 from Schedule K, line 16d. An entry in the “Non-dividend distributions” line of the **M2** screen adjusts the amount from the **K** screen (subject to limitations; see balance-sheet examples on the following page). See the field help for column **a** of line 7 on screen **M2** for more details.

Distributions reported on line 7 flow differently from the amount entered on the **DIST** screen. (See the previous section, “Entering Distributions.”) The distributions are limited following the ordering rules under Reg §1.1368.2.

**TIP** See Form 1120S instructions for more details and examples.

These rules are for Schedule M-2, column (a):

- **Line 1 balance** — The balance at the beginning of tax year, line 1 is either “0” (zero) or the balance carried forward from line 8 of the previous year. Due to prior-year net losses and reductions, the amount on line 1 can be negative.
- **Changes to AAA** — The Accumulated Adjustments Account (AAA) is increased for “ordinary income from page 1, line 21” (line 2 of M-2) and other additions listed on line 3. The AAA is then decreased for any loss from page 1, line 21 (line 4 of M-2) and other reductions listed on line 5.
- **Reduction of AAA** — Once these adjustments are made, the AAA is reduced by ordinary distributions on line 7, but not less than “0.” Thus, if the distributions are \$20,000, but the net amount on line 6 is \$10,000, line 7 is limited to \$10,000. If line 6 is a negative number, then line 7 will be “0” (in this example). To allow an amount on this line would take the AAA to a larger negative number. (That is, even more below zero than it really is).

Schedule M-2	Item	Amount
Line 1	Balance at beginning of tax year	(\$11,786)
Lines 2 & 3	Ordinary income and other additions	\$58,440
Lines 4 & 5	Loss and other reductions	(\$489)
Line 6	Combine lines 1-5	\$46,165
Line 7	Distributions (total \$60,000)	(\$46,165)
Line 8	Balance at end of tax year	\$0

The rules from the preceding chart apply when the net adjustment for lines 2 through 5 is positive. When the net adjustment for lines 2 through 5 is *negative*, the ordering rules are switched and AAA is decreased by ordinary distributions (but not below zero) before the net negative adjustment for lines 2 through 5.

Schedule M-2	Item	Amount
Line 1	Balance at beginning of tax year	\$11,786
Line 6	Net negative adjustment (lines 2-5)	(\$57,951)
Line 7	Distributions (total \$60,000)	(\$11,786)
Line 8	Balance at end of tax year	(\$57,951)

### Important Note about the AAA

A corporation can make distributions greater than the amount on line 6 of the M-2, but those distributions could be taxable for the shareholders. Enter distributions on the **DIST** screen; this way, the amounts flow automatically to Schedules M-2 and K-1 but are limited based on the rules described previously. (For more information on the **DIST** screen, see “Entering Distributions” on page 57.)

Line 7 is limited to the lesser of the amount for line 7 or the positive amount from line 6. If line 6 is negative, line 7 is then limited to the positive amount on line 1. If line 1 and line 6 are both negative, line 7 is disallowed on Schedule M-2. Distributions are entered on the **DIST** screen to be reported to the shareholders, regardless of the Schedule M-2 limitation. The AAA cannot be negative as a result of distributions, but it can be negative if it arises from losses.

## Column B, Undistributed Taxable Income Previously Taxed

The total of column (b) cannot be negative. This column is active in an 1120S only if the entity was ever a “C” corporation (thus having earnings and profit (E&P)) or if it was a pre-1983 S corporation. By design, Drake Tax does not allow negative numbers in column (b).

If a corporation becomes an S corporation and has net operating losses (NOLs), the NOL is not generated for the return because it cannot be carried to an 1120S (the IRS

does not want the NOL to be used by the shareholders to offset income); it either runs out within the years allowable for the NOL by statute or is used if the S corporation terminates its “S” status within those years.

## Column C, Accumulated Earnings and Profits

If the corporation was a C corporation in a prior year, or if it engaged in a tax-free reorganization with a C corporation, enter the amount of any accumulated earnings and profits (E&P) at the beginning of its 2019 tax year. If the corporation made distributions from accumulated earnings and profits, enter the amount of such distributions on Schedule K, line 17c. The amount entered on Schedule K, line 17c flows to Schedule M-2, line 7.

## Column D, Other Adjustments Account

Use column **D, Other Adjustments Account**, of screen **M2** to enter any amounts you want printed in the corresponding column of the printed return. Officer life insurance and applicable tax-exempt income flow to Schedule M-2, column b (“Other adjustments account”), line 5. All other amounts (such as expenses) must be entered manually on the **M2** screen.

## Rental Activities

Income and expenses for rental real estate properties appear on Form 8825, Rental Real Estate Income and Expenses of an S corporation. To make entries in Drake Tax, use the **8825** screen, available from the **Other Forms** tab of the **Data Entry Menu**.

Screen Code:  
**8825**

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 the “Properties” section of Form 8825 (up to eight properties can be included on a form). Data from all **8825** screens are transmitted to the IRS when the return is e-filed.

**NOTE** Special steps are required for using the trial balance worksheet for multiple rentals. See “Rental Expenses” on page 84.

## Line 14, Depreciation

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

**NOTE** Form 4562 is required for assets placed in service during the year.

### 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 17). If there are multiple **8825** screens, use the **Multi-form code** box. 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.

For information on using the **Multi-form code** box, see the *2019 Drake Tax User's Manual*.

**Figure 17:** In this example, the 4562 information flows to the second **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 second **8825 screen** will be generated on the first *Form 8825*. To associate an asset with that information, you would enter **2** for the screen (not **1** for the form) in the **Multi-form code** box. For more information on Form 8825, see “Viewing Rental Activity Information” on page 61.

## NOTE

Drake Tax produces a Form 4562 for each property on Form 8825.

### 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

Enter meals and entertainment (subject to 50% limit) in the appropriate field on line 15 of the **8825** screen. To enter additional other expenses, begin typing into the **Additional other expenses** field to open a Detail (CTRL+W) Worksheet. Enter descriptions and amounts on this worksheet.

A statement from each 8825 property is printed with the return (Figure 18 on page 61) and is submitted to the IRS when the return is transmitted.

12	Utilities . . . . .	12	10,101		
13	Wages and salaries . . . . .	13	20,202		
14	Depreciation (see instructions) . . . . .	14	4,489	2,020	3,205
15	Other (list) <b>Meals</b>		2,716	1,173	3,945
	SEE STM 8825_01	15	4,050		
	SEE STM 8825_02			5,060	
	SEE STM 8825_03				9,999
16	Total expenses for each property. Add lines 3 through 15 . . . . .	16	91,553	8,253	17,149
17	Income or (loss) from each property. Subtract line 16 from line 2 . . . . .	17	(79,208)	(8,253)	(17,149)
18a	Total gross rents. Add gross rents from line 2, columns A through H . . . . .	18a			

**Figure 18:** Other expenses are listed on Form 8825 and on accompanying statements; in this instance, “STM 8825\_01,” “STM 8825\_02,” and “STM 8825\_03”

If more than three **8825** screens have detail worksheets included for the **Additional other expenses** field, “Form 8825 - Attachment” is generated in View/Print mode, listing all properties for which a screen **8825** was completed that include these additional other expenses, and listing the statements generated for each.

Use the **K1P** screen to enter rental income the S corporation receives on a Schedule K-1. This amount flows to Form 8825, lines 20a. No entry is required on the **8825** screen.

### 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 shareholder’s individual return, 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 35 and “Aggregation, BANs, and PBANs” on page 39.

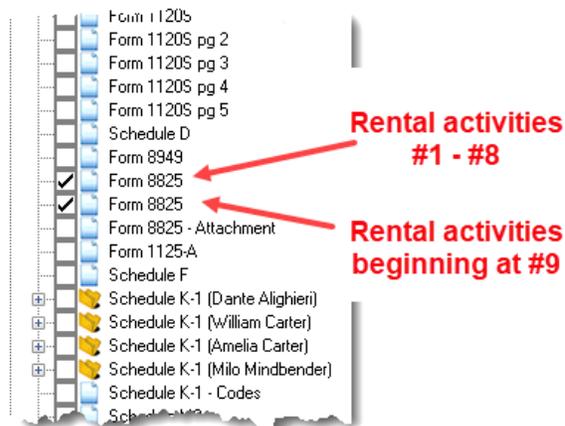
**NOTE** The **This activity is a trade or business** drop list is a required field and must be answered for each 8825 activity.

### Viewing Rental Activity Information

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

- **8825 Forms** — The two-page Form 8825 can contain information for up to eight rental activities. Each Form 8825 in View/Print mode contains up to eight rental activities. If more are entered, a second Form 8825 is created (see figure on next page).

- Form 8825 in View/Print mode consists of one or more pages (depending on the number of rental activities) listing up to four rental activities per page. If more than four rental activities are entered, scroll down to the second page of the Form 8825 when viewing.



- **8825 Statements** — Depending on your selections at **Setup > Options**, statements are titled **STM\_8825\_XX**, where XX equals the instance of the **8825** screen. (For example, the statements for the first and second **8825** screens would be labeled **STM\_8825\_01** and **STM\_8825\_02**, respectively.) There are also 8825 attachments (**8825\_ATT**) for reporting other information.

## Credits and Adjustments

Certain credits require an adjustment to either income or expenses. The required adjustments flow to the appropriate line of the return and to either Schedule M-1 or Schedule M-3.

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

See “Credit Adjustments” on page 18 for more.

## Elections

Screen code:  
**ELEC**

The ability to make certain tax elections is included in the business packages. Elections are selected from the **Election** drop list on the **ELEC** screen.

## Making an Election in Drake Tax

To indicate that the S corporation is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu** or by typing **ELEC** in the selector field of the **Data Entry Menu** and pressing ENTER.)
2. Make a selection from the **Election** drop list (Figure 19 on page 63).

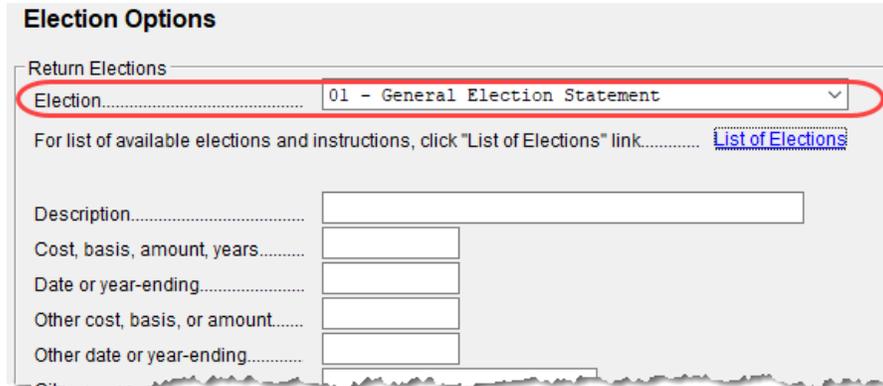


Figure 19: Election drop list

- 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 needed. For example, the help text for the **Other date or year-ending** field shows that the field is required only for election options 15, 27, 28, 29, and 31, and it explains what, specifically, should be entered for each of these elections (Figure 20).

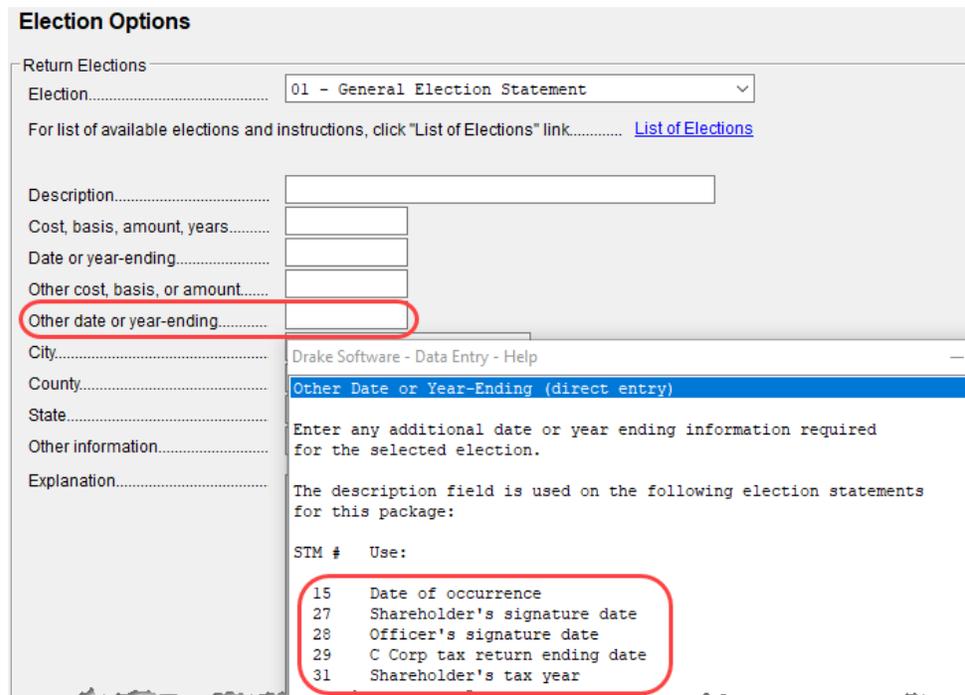


Figure 20: Help text for Other date or year-ending field on ELEC screen

NOTE

If the election option you selected is not listed in the help text for a field, 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 20).

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

## Election Statements

Once an election is made and the return is calculated, the election information is produced on a statement referenced either as “STATEMENT” or “Statement ELXX” (where “XX” is the number of the election) depending on your selections in Setup Options. For example, election 01 (General Election Statement) is generated as “Statement EL01” if you select **Print only one overflow statement per page** at **Setup > Options > Calculation & View/Print** tab, or in one of the “STATEMENT” pages if you clear the **Print only one overflow statement per page** check box.

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

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

Use the **Building qualifies for Section 1.263...** check box on screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement (“Election Stmt”) is produced and the building description as entered in the **Description** field is included in the election statement.

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

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

Use the **PRNT** screen, as described in the following paragraphs, to override program defaults.

## Suppressing/Forcing Items

Screen Code:  
**PRNT**

To suppress the printing or production—or to force the printing or production—of certain documents, go to the **PRNT** screen and select the desired options. Many “on-the-fly” changes override the options established in Setup Options.

**1120S Items** These items can be “forced” (forcing the program to generate the item) on a return:

- 1125E Officer Information
- Schedules L and M-1
- Form 4562 (Depreciation and Amortization)
- Next-year depreciation listing
- Inactive returns (“Inactive return” printed on first page of the 1120S)

- Preparer and officer signature on printed copy of return

The following 1120S items can be “suppressed” (kept from being generated) on a return:

- Schedule M-2
- WK\_M2 (Retained Earnings Reconciliation Worksheet)
- Form and worksheet references

## NOTE

Form and worksheet references are for the benefit of the preparer and client but are not required for the tax return. References appear on tax forms to clarify which worksheets (available in View/Print mode) correspond to which calculations, and which forms/screens certain amounts are carried from.

- Proformas for the next tax year

**K-1 Items** The following K-1 items can be “forced” on a return:

- Shareholder’s adjusted basis worksheet (Wks SBAS)
- K-1 codes (page 2 of the Schedule K-1)

The following K-1 items can be “suppressed”:

- Related documents: Schedule K-1, K-1 cover letter, K1 ATT worksheet (for K-1 statement overflow), and shareholder’s adjusted basis worksheet (Wks SBAS)
- Marking of “Amended K-1” box on printed Schedule K-1
- K-1\_DIST worksheet

## Overriding Other Setup Options

Screen Codes:  
**COMM** or **LTR**

Filing instructions and envelope coversheets can be either forced or suppressed from the **COMM** screen to override the global setting in **Setup > Options** (from either on the **Optional Documents** tab or the **Client communications** tab).

The **PRNT** screen also includes options to disable autobalance (see “Autobalance” on page 54), calculate the Form 2220 penalty, and prepare an extension (Form 7004) based on the data entered on screen **1**. (See “Filing an Extension” on page 27.)

## Optional (but Recommended) Security Information

Screen Code: **SEC**

The **Filing Security Information** screen (**SEC**) in Drake Tax is part of an ongoing IRS initiative to protect the business and tax return preparers from data theft and tax fraud. The information entered on the **SEC** screen 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

Steps to e-file Form 1120S are the same as to e-file Form 1040, with the exception of bankruptcy returns, which must be paper-filed.

An S corporation with \$10 million or more in total assets that files 250 or more returns a year is required to e-file its Form 1120S returns.

### NOTES

Every 1099, W-2, 940, and 941 form that is filed is counted as part of the 250-return threshold. For example, if a corporation filing an 1120S return also files 150 W-2 forms, each W-2 would count as a separate return within the 250-return threshold.

Calendar year returns are due on March 16, 2020. Fiscal-year returns are due on the 15th day of the third month (two and a half months) after the S corporation's year end. Returns can be e-filed after these dates; however, if an extension has not been filed, penalties and interest are applied.

## 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.

## Additional Return Types

Short-year returns, 52–53-week year returns, and inactive returns can all be e-filed using Drake Tax. For information on how to indicate a short-year return in Drake Tax, see "Short-Year Returns" on page 14. Information on e-filing 52–53-week returns is provided in the following sections.

## 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 begins** and **Fiscal year ends** dates. Use MMDDYYYY format, as shown in the example below.
2. Mark the **52-53-week tax year** box.

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

### 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 **Short Year Elections** screen (Figure 21).

**Figure 21:** Elections for 52-53-week tax years

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.)
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 ends** field on screen **1**).

### NOTE

Once a 52-53-week year is selected, the corporation must use that accounting period every year. To change accounting periods, the corporation must submit to the IRS Form 3115, Application for Change in Accounting Method.

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:

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

When the return is calculated, the program displays the words “Inactive Return” on the main form of the return (specifically, in the box above line 1c). 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.

For detailed instructions on e-filing returns in Drake Tax, see *2019 Drake Tax User’s Manual*.

## Common Reject Codes

If one or more of the following IRS reject codes is generated when e-filing an 1120S return, the preparer must contact the IRS for further information. The IRS e-Help Desk telephone number is (866) 255-0654.

- **Reject Code R0000-900-01** — The return type indicated in the return header must match the return type established with the IRS for this EIN. If you get this reject code, you must contact the IRS to correct its database or paper-file this return.
- **Reject Code R0000-905-01** — Electronic Filing Identification Number (EFIN) in the return header must be listed in the e-file database and in “accepted status.” If you get this reject code, you must update your e-file application to include the 1120S return type. This should be done at the IRS website. Review publication 3112 for details.
- **Reject Code F1120S-239-01** — Filer’s TIN and Name Control in the return header must match data in the e-file database unless Form 1120S, Item H (2), “Name Change” box is marked. Use the **Entity Name Control Override** field only if your client has obtained a Name Control from the IRS. See “Name Control,” following.

**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, log in to the IRS website or go to [irs.gov/businesses/corporations/using-the-correct-name-control-in-e-filing-corporate-tax-returns](https://irs.gov/businesses/corporations/using-the-correct-name-control-in-e-filing-corporate-tax-returns) See “Name Control,” following.

## Name Control

*(New for 2019)* A **Name Control** field has been added to the **EF** screen. Use this **Entity Name Control Override** field only if your client has obtained a Name Control from the IRS.

A “Name Control” is established by the IRS when the entity requests an Employer Identification Number (EIN). The IRS creates the name control from the legal name listed on the Form SS-4, Application for Employer Identification Number.

Filers who cannot determine the correct Name Control must contact the Business Specialty Tax Line at (800) 829-4933 for assistance. The caller must qualify in one of the following three categories to receive assistance:

- Be designated as the Paid Preparer and the “Paid preparer” check box on the return is marked for the last filed return (The designation expires one year after the due date of the return in question. There are no exceptions or extensions to the expiration date)
- Have or provide Form 8821, Tax Information Authorization, authorizing the caller to discuss the corporation’s entity information
- Have or provide Form 2848, Power of Attorney and Declaration of Representative, authorizing the caller to discuss the corporation’s entity information

In general:

- The Name Control consists of up to four alphanumeric characters.
- The Name Control should be determined from the information specified on the first name line. Generally, the Name Control is derived from the first four characters of the entity name.
- An ampersand (&) or hyphen (-) are the only special characters allowed in the Name Control.
- The Name Control can have fewer, but no more than, four characters. Blanks may be present only at the end of the Name Control.

Do *not* include DBA or FBO as part of the Name Control.

## Form 5471

Screens used to complete Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations, are 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 cannot be e-filed with the 1040 return. File by the due date (including extensions) for that return.

For details on using this form, see the IRS instructions for Form 5471.

## 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, open screen **II**, **GILTI Information**, 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 **II**.

## 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 Forms 951A and 965; 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

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 made 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” is 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” is 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 [bsaefiling.fincen.treas.gov/main.html](https://bsaefiling.fincen.treas.gov/main.html)

The link to the BSA website is 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.

## 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 and scanned into the computer (or “saved” as a PDF document), and attached to the return in order to be e-filed with the return.

You can attach PDF files to federal S corporation 1120S returns for e-file. The **PDF Attachments** screen is accessible from the **General** tab of the **Data Entry Menu**.

## 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 Drake Documents scanning feature for this step.

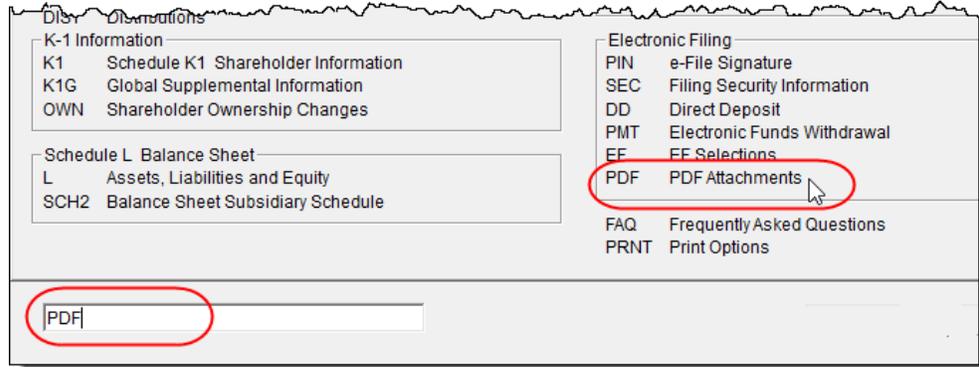
2. Save the document to your client's Drake Documents file, your computer's desktop, or anywhere you can readily find it.

**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

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

1. Open the return in Drake Tax. From the **General** tab of the **Data Entry Menu**, click **PDF Attachments** or type PDF in the selector field and press ENTER (Figure 22 on page 72).



**Figure 22:** Select **PDF Attachments**, or type PDF in the selector field and press ENTER.

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

**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 1120S
<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

- Exit the **PDF Attachments** window.

Because you've indicated that a PDF file 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 toolbar, click **View**. If anything was entered in the **PDF Attachments** window (see "Adding PDF Documents" on page 71), there will be two PDF-related items in the **View/Print** window:
  - An EF "MESSAGES" alert (item #1 in Figure 23 on page 73)
  - An "EF Attachments" document (blue squares in Figure 23 on page 73)
  - An **Attach PDF** button on the toolbar (item #2 in Figure 23 on page 73)

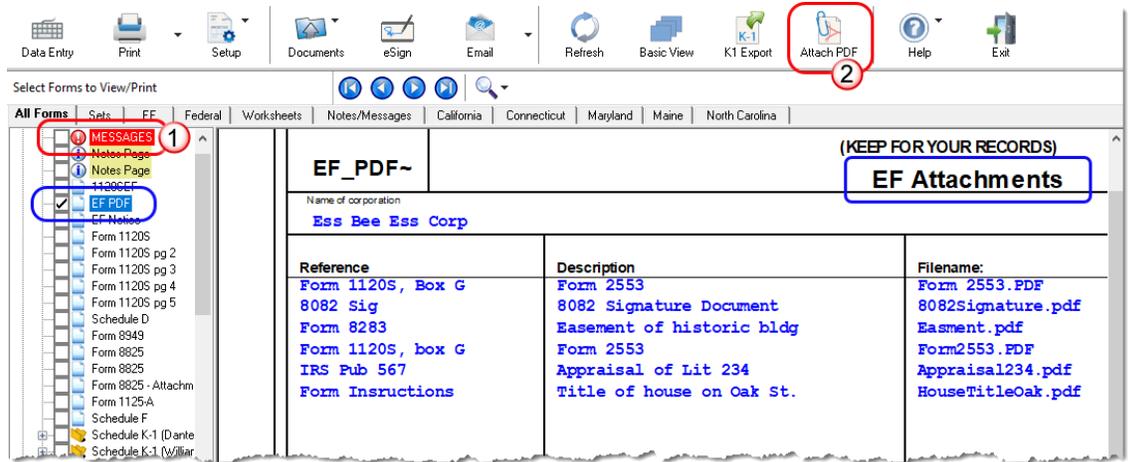


Figure 23: The MESSAGES file (#1) and the Attach PDF button (#2)

2. Click the “EF PDF” file from the forms tree to see a listing all documents entered on the PDF screen.
3. Click the “MESSAGES” file in the forms “tree” 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 (Figure 24). A red circle with an X means the document has not yet been attached; a green circle with a check mark indicates an attached document.

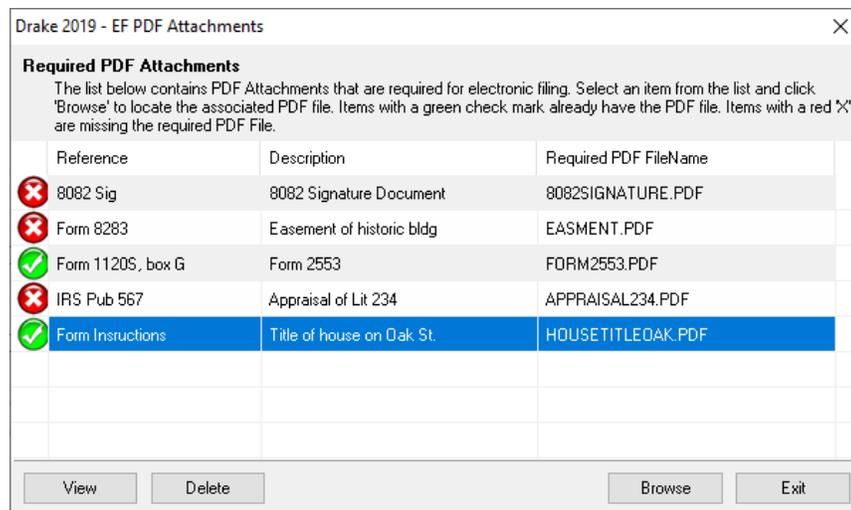


Figure 24: The EF PDF Attachments window

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 circle and X. When all documents have been attached to a completed return, recalculate to clear the EF Message. The return is now ready to be e-filed.

## Printing Generated Documents

In some instances, Drake Tax generates a document that must be printed, signed, and scanned back into the computer to be attached to the return. For example, if Form 2553, Election by a Small Business Corporation, is present in an S corporation return (and the **Attaching Form 2553 as a PDF document** check box is marked on screen 1), EF Message 1513 is generated when the return is calculated, stating that attachments are required. You must print and then complete the statements, scan them into the computer, save them as PDF documents, and attach them to the return.

### Drake-Generated PDFs

Some required PDF attachments—such as Schedule B-1—are generated by the program through data entry. These forms appear on the “EF PDF” page automatically and require no information be entered on the **PDF** screen. These attachments still must be “attached,” using the steps provided in “Attaching Documents to the Return” on page 72.

## Importing Trial Balance Information

Drake Tax’s trial balance import feature allows data to be imported into an 1120S 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 an appendix at the end 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 76.)

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**

## NOTE

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 25).

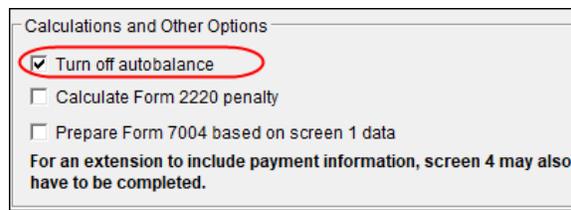


Figure 25: Disable autobalance from the **PRNT** screen

- **Force Schedule L** — By default, Drake Tax does not display the balance sheet amounts on the return if the entity does not meet the filing requirement. If this is the case, you have to override the default setting in order to have the amounts shown on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen and select the **Force-print Schedules L and M-1** box (Figure 26).

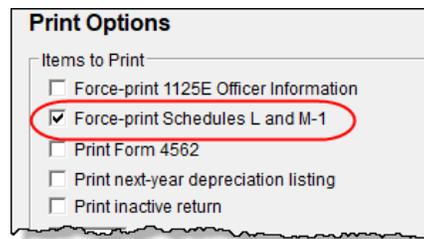


Figure 26: Force-print Schedule L box from the **PRNT** screen

- **Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail (CTRL+W) worksheets 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 27 on page 76.

Form 1120-S - Income	
1a Gross receipts or sales.....	123456
1b Returns and allowances plus any "cash back" included on line 1a.....	
2 Cost of goods sold.....	1125-A Screen
5 Other Income	
Amount of credit for tax on fuels (Form 4136).....	123
Interest income on receivables.....	234

Figure 27: Example of an “unnecessary” detail worksheet

Delete (by pressing CTRL+D) unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 78 for more information on using detail worksheets in the trial balance.

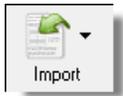
## Preparing Financial Data for Import

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 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, open the worksheet, 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 **Entity Name** and **Year End** 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

Column	Description
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 81.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (see Figure 28; see also Figure 31 on page 79).

Salaries and wages - shareholder employees	\$0	
Waste removal	\$0	
Net Income (Loss) = Schedule M-1, line 1		(\$55,555)
Totals	\$223,955	\$223,955
OUT OF BALANCE?		\$0

**Figure 28:** Schedule M-1 amount (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 program. For more on these categories of data, see “Special Conditions” on page 81.

#### 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) and are not gray.

#### Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 29). Buttons do not work if macros are disabled; see the Note in “Opening a Template” on page 76.

\$0	K, line 6	Schedule K, li
\$0	does not carry	detail required
\$0	<del>does not carry</del>	detail required
\$0	<b>Book Income</b>	requires deta
\$0	<b>Other Income</b>	requires deta
\$0	<b>Sch K Income</b>	requires deta
\$0	<b>Sch K Deductions</b>	requires deta

**Figure 29:** Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 30 on page 79 shows an example of the “Other Income” worksheet.

1	<b>Statement Required - Other Income</b>		
2	Form 1120S, page 1, line 5; INC line 5		
3			
4			
5			
6	<b>Line Description</b>	<b>Amount</b>	<b>Import to:</b>
7	1 Amount of credit for tax on fuels (Form 4136)	\$0	INC, line 5
8	2 Interest income on receivables	\$0	INC, line 5
9	3 Recoveries of bad debts deducted in earlier years	\$0	INC, line 5
10	4 Section 481 adjustments	\$0	INC, line 5
11	5 State tax refund (cash basis)	\$0	INC, line 5
12	6 Taxable income from insurance proceeds	\$0	INC, line 5
13	7 Other	\$0	Other Income Detail
14			3
15			
16			
17	<b>Total other income</b>	\$0	
18			
19			
20			
21	<a href="#">Click to return to TB</a> 2		
22			
37			
38			
39	1		

Figure 30: Trial balance worksheet for “Other Income”

To return to the previous worksheet, click the **SBS TB** tab (labeled “1” in Figure 30), or click the **Click to return to TB** button above the worksheet tabs (labeled “2” in Figure 30). Note that a detail tab (the “Other Income” tab in the lower left of Figure 30) might include one or more detail worksheets (labeled “3” in Figure 30).

**NOTE**

Do not create detail worksheets in data entry of the tax program 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 31).

Totals	\$12,900	\$4,100
	OUT OF BALANCE?	\$8,800

Figure 31: Out-of-balance amount is highlighted if columns are out of balance.

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 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

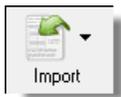
Once a trial balance worksheet has been set up for a client in Drake Tax, the trial balance information can be imported into the program and calculated into the return.

### NOTES

Not all trial balance data can be imported directly into a return. For information on program limitations, see “Special Conditions” on page 81.

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 into 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. If necessary, click the button to the right of **1. Import File Name** (blue circle in Figure 32 on page 81) to browse to the proper folder. By default, each trial balance file is an Excel (.xls) file showing the client name and ending in “TB” for trial balance, as shown in the example in Figure 32 on page 81. (See “File Location” on page 76.)

Drake 2019 - Trial Balance Import

**Import File Name**  
Enter the name of the file that contains the trial balance information. Click on the 'Browse' button to search for the file.

1. **Import File Name** C:\DRAKE19\TB\EssBeeEssTB.XLS

**Trial Balance Additional Import Options**

Import Options

Import buildings and other depreciable assets

Import accumulated depreciation

**Figure 32:** Selected file to import

5. Select any desired **Trial Balance Additional Import Options**. (See “Additional Import Options” following this procedure.)
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**):

Buildings & other depreciable assets	Accumulated depreciation
Land	Goodwill & other intangible assets
Accumulated amortization	8825/Rent information
Cost of goods sold depreciation	

## Special Conditions

Some 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 are not imported 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 33 on page 82 go to Schedule L, line 1, column d in the program and are shown on page 4, Schedule L, line 1, column d, of the 1120S return.

Debit	Credit	Import to:	Reported on:
\$420,050		L, line 1, col d	Form 1120S, Sch L, line 1, col d
\$0		L, line 2a, col c	Form 1120S, Sch L, line 2a, col c

**Figure 33:** 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.
does not carry	Information cannot be imported and must be entered on the appropriate screen in Drake Tax. Screen is specified in “Reported on” column.
optional	Amount is optional; not required for import, but could require direct entry in Drake Tax data entry screens.
include deficit 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 Form 1125-A calculation.
[Form or Schedule] may be required	Non-financial information must be completed in Drake, in addition to the financial data entered in the worksheet.

All “does not carry” notes are accompanied by further instructions in the “Import to” column to the left of the “Reported on” column, as shown in Figure 34.

**SCH2 Detail**

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

L, line 5, col d	Form 1120S, Sch L, line 5 col d	
Other current assets detail	SCH2 detail required in Drake	does not carry
L, line 7, col d	Form 1120S, Sch L, line 7, col d	
L, line 8, col d	Form 1120S, Sch L, line 8, col d	
Other investments detail	SCH2 detail required in Drake	does not carry
L, line 10a, col c	Form 1120S, Sch L, line 10a, col c	optional

**Figure 34:** SCH2 screen in Drake Tax is required for “do not carry” items on trial balance

To complete an SCH2 detail screen in data entry:

1. In Drake Tax, open the **SCH2** screen in the return. The **SCH2** screen is accessible from the **General** tab of the **Data Entry Menu** and through links on the **L** screen.)
2. On the **SCH2** screen, select from the **Line Number** drop list.
3. Enter the applicable item descriptions and beginning- and end-of-year totals.

To enter details for additional lines of the 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** screen.

See “The SCH2 Screen” on page 52 for more details on using the **SCH2** screen.

## Depreciation

S corporation returns can have up to four components of total depreciation:

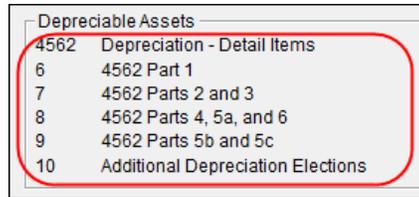
- COGS
- Real estate rental
- Rental other than real estate
- Any remaining depreciation

For trial balance purposes, enter depreciation amounts directly into the appropriate fields on the trial balance worksheet. Note that, for 1120S trial balances, rental expense detail worksheets are required for **8825** and **RENT** depreciation.

## NOTES

- 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 *must* be edited if **4562** detail screens (see Figure 35 on page 84) are used.
- Accumulated depreciation is optional for the Trial Balance Import.
- Depreciation expense entered in the Trial Balance Import will override depreciation calculated by the tax program.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A of 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 35 on page 84).



**Figure 35:** Enter depreciable asset data on a **4562** detail screen, or enter the total depreciation on the override screens **6, 7, 8, and 9**).

**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 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 S corporations with multiple rental properties.

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

Account Title	Debit	Credit	Import to:	Reported on:
Cash	\$0		L, line 1, col d	Form 1120S, Sch L, line 1, col d
Trade and accounts receivable	\$0		L, line 2a, col c	Form 1120S, Sch L, line 2a, col c
Allowance for bad debts		\$0	L, line 2b, col c	Form 1120S, Sch L, line 2a, col c
Tax-exempt interest		\$0	K, line 16a	Sch K, line 16a, Sch M-1, Line 5
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	\$600		Real Estate Rental Exp	requires detail
Gross other rental income		\$0	RENT, line 1	Rent, Line 1
Total other rental expenses	\$0		Other Rental Exp	requires detail
Gross royalties		\$600	K, line 6	Schedule K, line 6
Capital gains or losses	\$0	\$0	does not carry	detail required on Schedule D

**Figure 36:** Rental expense rows on an S corporation trial balance worksheet

When imported, the rental expense data entered on the trial balance worksheet appears on either an **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 84).
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. Enter the amounts on additional screens that require details. (For more information on data that cannot be imported, see “Special Conditions” on page 81.)
6. 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 imported correctly, an M-1 adjustment could be necessary.

7. Complete all **8825** or **RENT** screens in data entry, as applicable, for the individual rental properties or items.
8. 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, ensure that the screen to delete is selected, then click **Delete**.

## Other Program Imports

Information for other outside worksheets can be imported into your 1120S return.

### Form 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 - 1120S 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 MMDDYYYY format (separators can be used or omitted).

**TIP** Whether using the downloaded worksheet for the 4562 import or the 8949 import (see "Form 8949 Import," following), or building your own, you can import the data more than once. When you are sure the correct data is imported, you can delete previous import attempts by opening the corresponding **4562** screens (or **8949** screens) and pressing CTRL+D.

For more help, see "Form 4562 Import" and "Form 8949 Imports" in Chapter 5 of the *2019 Drake Tax User's Manual*.

### **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 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. 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

- When importing 8949 data into an 1120S return from the Drake Tax template, the “TSJ” column in the worksheet represents the **Property Type** field on screen **8949**.
- Be aware that data in certain cells of the Drake Tax template are not imported to screen **8949**. For instance, the “AMT” cells and the “QSBS” cells in the template have no corresponding fields on screen **8949**; when 8949 data is imported, anything in those columns is ignored.
- If you are building your own worksheet, however, the “AMT” and the “QSBS” columns must be included in the worksheet but enter no amounts should be entered; when 8949 data is imported, those two columns are ignored. For best results, include all columns displayed in the “Example Spreadsheet” in Step 3, below.
- Do not include the “EIN (QOF Only)” column 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 on page 87) 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.

Form 3115, Application for Change in Accounting Method, is eligible for e-file.

Drake Tax customers can complete and e-file Forms 3115 and related schedules and attachments for corporation returns.

## NOTES

In some cases, Form 3115 must still be paper-filed. See IRS instructions for details.

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 for completing Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the **Other Forms** tab of the **Data Entry Menu**. These screens 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 program
- 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 on page 89, you can access the various **3115** screens by clicking a tabbed link at the top of any of the **3115** screens.

The screenshot shows the 'Form 3115 - Application for Change in Accounting Method' screen. At the top, there are navigation tabs: 'Part I', 'Part II', 'Parts III, IV', 'A, B, C', 'D - Parts I, II', and 'D - Part III'. The 'Part I' tab is selected and highlighted with a red circle. Below the tabs, the title 'Form 3115 - Application for Change in Accounting Method' is displayed. To the right of the title is a 'Multi-form code' text box with a small square icon next to it, also highlighted with a red circle. Below the title is a section labeled 'General Information' containing several fields: 'Principal business activity code number' (with a dropdown arrow), 'Tax year of change begins', 'Tax year of change ends', and 'Name of applicant (if different from filer)'. Each of these fields has a red '=' symbol to its left.

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) 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 EF 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 and the EF PDF worksheet to the list on the EF Message.

### NOTES

- 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.
- In View/Print mode, various Return Notes appear on the NOTES page. These Return Notes provide information or reminders about the return but do not prevent e-file. They are informational only.
- To keep a specific Return Note from being generated whenever you view this return, open the HIDE screen (available from the **Miscellaneous** tab of the **Data Entry Menu** or by typing HIDE into the selector field and pressing ENTER), type the number of the note to hide into one of the boxes, and then recalculate the return.

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# Appendix A: Trial Balance Import

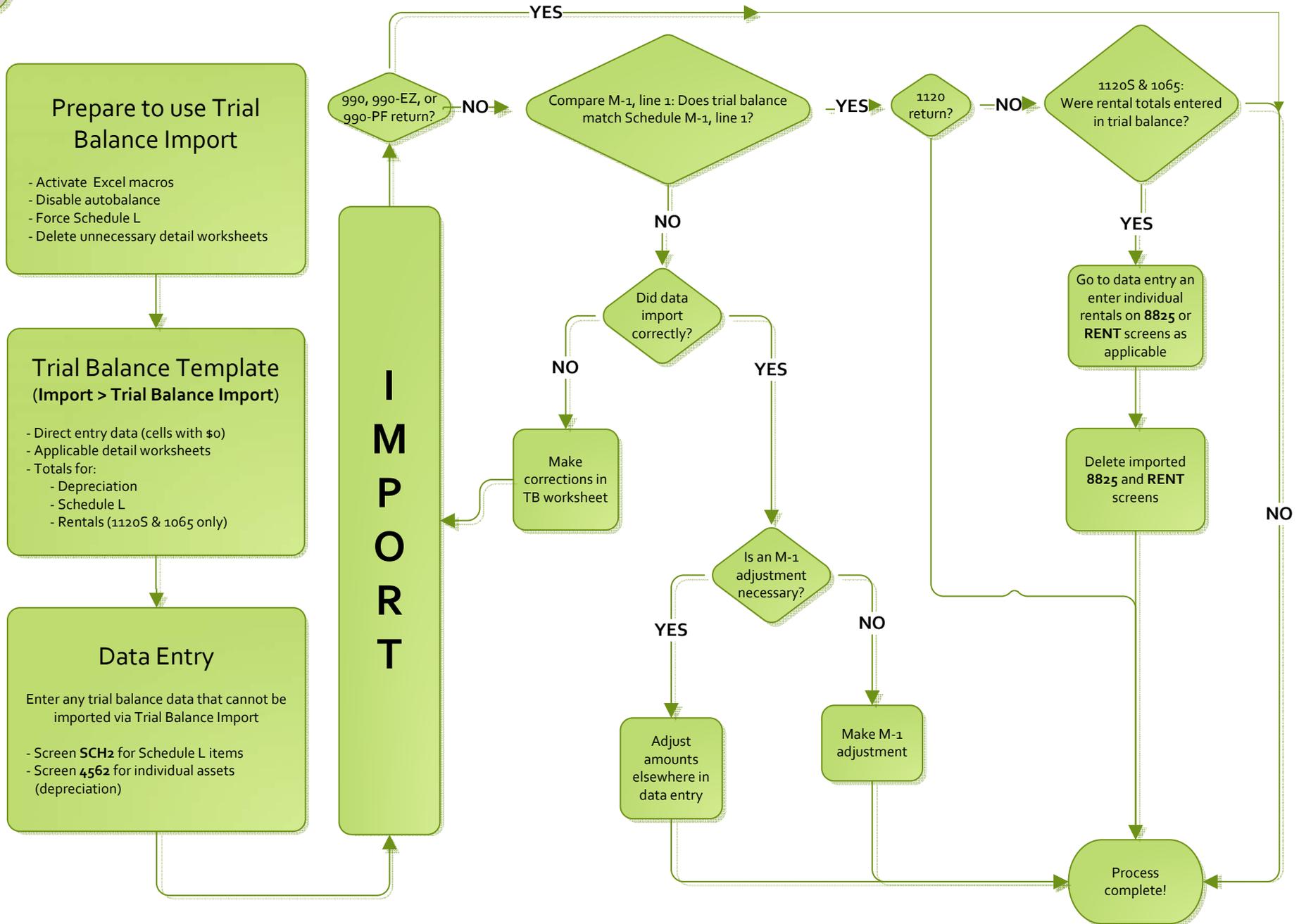
The trial balance import allows data to be imported into a corporation tax return from a trial balance worksheet.

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 next page for a flow chart describing the use of the trial balance import.

# Trial Balance Import: General Process



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