

SUPPLEMENT: CORPORATIONS (1120)

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Drake Tax User's Manual

Tax Year 2018

**Supplement: Corporations
(1120)**

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Corporations (1120)

THE BASICS OF DATA ENTRY FOR A CORPORATION (1120, 1120-C, 1120-H) 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 2018 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 CORPORATIONS

Drake Tax is programmed to conform to the latest IRS rules and regulations. The 2018 program reflects all changes to forms, credits, and deductions. For details on the new regulations for the 2018 tax year, see the IRS instructions for Form 1120.

IMPORTANT

- Be sure to review the *2018 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 such Update Manager, Scheduler, Client Status Manager, new security measures, such as two-step authentication, and enhancements to other programs, such as SecureFile-Pro and Drake Accounting.
- Some of new IRS forms – and the Drake Tax screens used to complete these forms – were not ready in time for the publication of this supplement.

The following changes have been made to the 1120 program in Drake Tax for the 2018 tax year.

IRS CHANGES FOR 2018

- Six new questions were added to Schedule K. To accommodate these new questions, Drake Tax added the **Schedule K, cont.** tab at the top of the **K** screen. Included in these new questions are:
 - Question 24, concerning business interest expense under Section 163(j)(3) and new Form 8990.
 - Question 25, concerning the Qualified Opportunity Fund and new Form 8996, used by those who invested in a low-income area as a way to defer capital gains. (Click the link to screen **8996** and see Form 8996 and its related instructions for more information.)

- Because many “entertainment” expenses are no longer deductible, screen **DED** now includes two new lines, one for any deductible entertainment expenses and one for nondeductible entertainment expenses. Meals are still 50% deductible.
- Effective for tax years beginning after 2017, the eligibility of small business taxpayers to use the cash method has been expanded.
- The filing addresses for businesses located in certain states have changed. See item B, “Where to Mail Return,” on the **FAQ** screen.
- The main return form, 1120, is going from five to six pages.
- There is no longer an Alternative Minimum Tax for corporations. Lines relating to the AMT have been removed from Schedule J. A carryover of credit can be taken by completing Form 8827, Credit for Prior Year Minimum Tax.
- The corporation tax rate will be a flat 21% for the 2018 tax year.
- Form 8990, Limitation on Business Interest Expense Under Section 163(j), has been added to the program. Use Form 8990 to figure the amount of business interest expense that is deductible and the amount to carry forward to the next year. See “Business Interest Expense and Form 8990” on page 31 for more information.
- For Schedule C, there have been extensive changes to Schedule C. the “Dividends, Inclusions, and Special Deductions” section of the form. There have been extensive changes to Schedule C. For one thing, it is now titled the “Dividends, Inclusions, and Special Deductions,” the “inclusions” concerned mostly with the eight new lines relating to foreign-sourced income, including:
 - Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI)
 - Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI)
 - Section 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System
- Six new questions were added to Schedule K. To accommodate these new questions, Drake Tax added the **Schedule K, cont.** tab at the top of the **K** screen. Included in these new questions are:
 - Question 24, concerning business interest expense under Section 163(j)(3) and new Form 8990.
 - Question 25, concerning the Qualified Opportunity Fund and new Form 8996, used by those who invested in a low-income area as a way to defer capital gains. (Click the link to screen **8996** and see Form 8996 and its related instructions for more information.)
- Corporations are no longer allowed to carry back net operating losses (with certain exceptions for farmers and insurance companies). Corporations can carry those losses forward into perpetuity, subject to an 80% limitation.
- Schedule O, in the past, was used to report the apportionment of taxable income, income tax, and certain tax benefits between all component members of a controlled group. With the changes to tax law, such apportionment is no longer allowed, so Schedule O is purely an informational form this year.
- New Family Medical Act credit is available in all Drake Tax packages, using new Form 8994.
- Form 1118 is growing from eight to 14 pages.

NEW FOR

2018

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, go to the **Miscellaneous** tab of the **Data Entry Menu**, select the **HIDE** screen (or type **HIDE** into the selector field and press **ENTER**), type the number of the note to hide into one of the boxes, and then recalculate the return.

BEFORE YOU START

Actions you might need to take before starting a 2018 corporation return in Drake Tax include:

- Updating a prior-year return (if you prepared the tax return last year in Drake Tax)
- Changing a return from another type of return to an 1120, if the corporation has made such a change in the last year

UPDATING A PRIOR-YEAR RETURN IN DRAKE TAX

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

- As a single return (updated one at a time) using **Last Year Data > Update Clients 2017 to 2018** (recommended)
- When you open a 2017 return for the first time in the 2018 program and are prompted to update it
- With all other returns in the program using **Last Year Data > Update Clients 2017 to 2018** (not recommended)

When you update an 1120 return that was marked “final” the previous year, the program informs you that the return was marked final before prompting you to proceed.

CONVERTING FROM ANOTHER RETURN TYPE

If the corporation is electing to become an 1120 corporation after existing as another type of entity (S corporation, partnership, etc.), it is necessary to indicate this in the program.

To change from another type of entity to an 1120 corporation in Drake Tax:

1. From the **Home** window menu bar, select **Tools > File Maintenance > Change File Type**.
2. Enter the EIN of the entity and click **Continue**.
3. Select the new return type.
4. Click **Continue** to save the change, then click **OK**.

FILING FORM 1120-C OR 1120-H

No preliminary steps are required for completing Forms 1120-H or 1120-C. Use the same screens you might for an 1120 return, but include one of the following screens in addition (accessible from the first **Other Forms** tab of the **Data Entry Menu**):

- **H** — For Form 1120-H, U.S. Income Tax Return for Homeowners Associations
- **20C** — For Form 1120-C, U.S. Income Tax Return for Cooperative Associations

If one of these screens contains data, the program automatically produces the type of return indicated. For example, if a deduction is entered on screen **20C**, an 1120-C return will be produced.

TIP

Is Form 1120-C or 1120-H being produced in error? Check the corresponding screen (**H** or **20C**) for data entered. To delete a screen, open the screen and press **CTRL+D**, right-click the screen and select **Delete Screen**, or from the data entry screen toolbar, select **Delete**.

HEADER INFORMATION

Screen **1** contains fields for the general information printed in the top section of page 1 of Form 1120 (or Form 1120-C or 1120-H, as applicable).

NAME AND ADDRESS

Use screen **1** to enter the corporation's name and address for Form 1120. For state purposes, if the corporation has an alternate address (such as a P.O. box), you can enter that address on screen **2, State General Information**, in the **Address Line 2** field at the bottom of the screen.

NOTE

The screen **2** link is located on the **States** tab of the **Data Entry Menu** and on screen **1** (click **Screen Info**). You can also type **2** into the selector field and press **ENTER**.

Doing Business As

Anything typed into the **DBA** field of screen **1** will now be printed below the legal name of the corporation in the "Name" section of the main form (and on certain other forms, such as Form 8821, Tax Information Authorization, and Form 2848, Power of Attorney).

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 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.

TAX YEAR

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

Fiscal and Calendar Years

If the 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 in the lower left corner of screen **1**.

NOTE 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 48.

Short-Year Returns

A corporation might have to file a short-year return if it 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 information is entered on the **Year** screen, available on the **Miscellaneous** tab of the **Data Entry Menu** or from a **Year** link on screen **1**. (Certain other elections are made from the **ELEC** screen.)

To enter short-year election 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 will 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 reason** drop list. Your explanation is displayed 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.

If you selected "09 General Explanation" from the **Other short-year reason** drop list, type details on the reasons for filing a short-year return in the **Explanation** text box; otherwise, an EF Message is generated.

NOTES

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

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**.

BOXES A THROUGH E

Use screen **1** to enter most information for boxes A through E (top of Form 1120). Note that boxes A-4 (“Schedule M-3 attached”) and D (“Total assets”) are completed automatically by the program based on data entered elsewhere.

NOTE

Box 1a (“Consolidated return”) in section “A” is automatically marked if there are entries on screen **851** (Form 851, Affiliations Schedule). Box 2 (“Personal holding company”) in section “A” is automatically marked if there are entries on screen **PH** (Schedule PH, U.S. Personal Holding Company (PHC) Tax).

OPTIONAL (BUT RECOMMENDED) SECURITY INFORMATION

Screen code: **SEC** The **Filing Security Information** screen in Drake Tax is part of an industry-wide initiative to better protect taxpayers and 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 2018; however, certain states will begin requiring this information in the near future.

The Filing Security Information (**SEC**) screen is accessible through the **Filing Security Information** link on screen **1** or from the **Data Entry Menu**.

INCOME AND DEDUCTIONS

Only three screens are required in order to calculate taxable income for an 1120 return:

- **INC** — Includes all items of income reported on Form 1120, page 1, lines 1 through 10, that do not require a separate schedule (Schedule C) or additional information (income reported on Form 1065, Schedule K-1); also includes tax-exempt interest income reported on Schedule K and Schedule M-1.
- **DED** — Includes all deduction items reported on Form 1120, page 1, lines 13 through 26, that do not require a separate schedule or form (Form 4562). (Data for line 12 of the 1120, “Compensation of officers,” is generally entered on screen **DED** when Form 1125-E is not required; otherwise, compensation of officers is entered on screen **E**. See “Compensation of Officers (Form 1125-E)” on page 18 for details.)
- **J** — Includes loss carrybacks, controlled group tax bracket amounts, tax payment information, and certain credits.

GROSS RECEIPTS

Enter gross receipts (Form 1120, line 1a) and returns and allowances (Form 1120, line 1b) on lines 1a and 1b of the **INC** screen. Exclude any amounts that are to be reported on lines 4 through 10 of Form 1120.

COST OF GOODS SOLD (FORM 1125-A)

Enter the cost of goods sold (COGS) on screen **A**. Form 1125-A is not produced unless entries are made on screen **A**.

Inventory

Inventory amounts entered on lines **1** and **7** of screen **A** automatically flow to Schedule L, line 3 (“Inventories”)

NOTES

Lines **1**, **2**, and **7** of screen **A** are adjustment fields. Amounts entered in these fields adjust (add to or subtract from) any amount flowing from the **F** screen (Form 1040, Schedule F, Profit or Loss from Farming) to line 2 of Form 1120.

On both of the Schedule L screens – **L** and **L2** – line 3, “Inventories,” is an override field. Anything entered in these fields overrides (replaces) the total calculated from inventory data entered on screen **A**.

Line 5, Other Costs

Line 5, “Other costs,” on screen **A** (figure below) is designated for any applicable costs not entered on lines 2 through 4 (purchases, cost of labor, and additional section 263A costs). In Drake Tax, two data-entry fields are used to complete line 5: one for other costs excluding depreciation, and one for depreciation.

In the “Depreciation” field, enter any depreciation that relates to the cost of goods sold (unless the amount is flowing from the **4562** screen with **COGS** selected from the **For** drop list). Note that this field of screen **A** is an override field; an entry here overrides calculations from the **4562** screen and automatically adjusts the total depreciation that flows to page 1 of Form 1120.

Schedule A - Cost of Goods Sold

1	Inventory at beginning of year.....	
2	Purchases less cost of items withdrawn for personal use.....	
3	Cost of labor.....	
4	Additional section 263A costs.....	
5	Other costs - excluding depreciation.....	
5	Depreciation.....	
7	Inventory at end of year.....	
9a	Methods used for valuing inventory:	
	<input checked="" type="checkbox"/> Cost	<input type="checkbox"/> Lower of cost or market

An entry in the “Other costs - excluding depreciation” field of line 5 opens a Detail Worksheet (also known as a **CTRL+W** worksheet). The program automatically generates a worksheet if an entry is made here or in any other field where a worksheet is required by the IRS. The depreciation amount is included on the statement for other costs and should not be included in the “Other costs - excluding depreciation” field.

Importing Trial Balance to Sch A

If using the trial balance import feature (see “Importing Trial Balance Information” on page 54), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* in the fields in Drake Tax 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.

DIVIDENDS (SCHEDULE C)

Enter dividends, certain inclusions, and special deductions on screen **C** (Schedule C). The Dividends Received Deduction Worksheet (Wks DRD) is generated from data

entered in these fields. The result of the Wks DRD is carried to Schedule C of the return. The total from Schedule C, line 19, column (a), is included on line 4 (“Dividends and inclusions”) of Form 1120, and the total from Schedule C, line 24, column (c), flows to Form 1120, line 29b (“Special deductions”).

NOTE

If the corporation is filing a consolidated return, do not enter non-included dividends here or anywhere else in the program.

FOREIGN INCOME-SOURCED INCOME AND DIVIDENDS

New for 2018: Lines 13, 14, and 15 of Schedule C have been updated for 2018. Use lines 13 and 14 to report foreign-sourced dividends. Line 15 is an override field; use this field if you wish to override the calculated 2018 section 965(a) inclusion amount from Form 965.

Line 13

Enter on line 13 the foreign-source portion of dividends that both:

- Are received from specified 10% owned foreign corporations, including gain from the sale of stock of a foreign corporation that is treated as a dividend for the purposes of applying section 245A under sections 128(a) and (j)
- Qualify for the 100% deduction under section 245A excluding any hybrid dividends

Line 14

Include on line 14 any hybrid dividends from a controlled foreign corporation (CFC) dividends not reportable on lines 3, 6, 7, 8, 11, 12, or 13. Hybrid dividends generally are dividends from a CFC that would otherwise be reported on line 13 except that the CFC receives a deduction (or other tax benefit) with respect to any income, war profits, or excess profit taxes imposed by any foreign country or possession of the U.S.

Also include on line 14 the corporation's share of distributions from a section 1291 fund from Form 8621, to the extent that the amounts are taxed as dividends under section 301. See Form 8621 and the instructions for Form 8621 for details.

Line 15

Use this line to override the Section 965(a) inclusion amount from Form 965 calculated by the program and flowing from line 3 of Form 965. Complete and attach Form 965 and any applicable schedules. Also complete and attach Form 965-B. Enter in column (c) the 2018 section 965(c) deduction amount from Form 965, line 17. An entry in this field overrides the amount flowing from Form 965.

NOTE

The Drake Tax screens used to complete these forms – were not ready in time for the publication of this supplement.

INTEREST

Line 5 of Form 1120 is for interest income, which is entered on the **INC** screen. Note that the **Interest income** field on the **INC** screen is an adjustment field; an amount entered there is combined with the interest amount, if any, entered on screen **6252**.

(Form 6252, Installment Sale Income) and interest income entered on screen **K1P** (Schedule K-1, Form 1065).

Enter *tax-exempt* interest income on the **INC** screen. This amount flows, as applicable, to Schedule K, line 9, and to Schedule M-1, line 7. An override field is available on screens **K** if necessary to override the **INC** screen amount and any amount flowing from screen **K1P**, line 18, code “A.”

RENTS AND ROYALTIES

Enter gross rents and gross royalties using the direct-entry fields on the **INC** screen. Line 7, “Gross royalties” is an adjustment field. Any amount entered here adjusts amounts flowing from line 7 of screen **K1P**.

Note that passive activity loss rules may be applied to rental activities held by a closely held corporation or a personal service corporation.

CAPITAL GAINS

Screen code: 8949 Use screen **8949** to enter capital gains and losses. Short-term capital gains flow to Part I, lines 1b, of Schedule D. Long-term capital gains flow to Part II, lines 8b-9, of Schedule D. The net gain from Schedule D is carried to line 8 of Form 1120. (Any net capital loss is carried to Attachment D to offset future gains.)

NOTE

You can import data for Schedule D using the Form 8949 Import feature. For more on using this feature, see “Form 8949 Imports” in Chapter 5 of the *2018 Drake Tax User’s Manual*.

ORDINARY GAINS AND LOSSES

The amount generated for line 9 flows from Form 4797, Part II, line 17. Amounts can also flow from screen **4562** to Form 4797 (making screen **4797** entries unnecessary), but only if screen **4562** shows assets sold, date, and property type.

OTHER INCOME (LOSS)

Use the **INC** screen to enter amounts for the “Other income” line of the main form. Specific **INC** screen entries are displayed on attached statements in View/Print mode (Figure 2-1).

Federal Supporting Statements		2018	PG01
Name, as shown on return	Seay's Trucking	Employer identification number	40-0112011
<u>Form 1120 - Line 10 - Other Income</u>			
Statement #1			
Description		Amount	
Form 4136 Credit Adjustment		111	
Interest Income on Receivables		222	
Recoveries of Bad Debts Deducted in Earlier Years		333	
Section 481 adjustments		444	
State Tax Refund (Cash Basis)		555	
Taxable Income from Insurance Proceeds		666	
Partners in Crime	41-4141414	9,876	
Total		12,207	

Figure 2-1: Statement containing “Other Income” entries from INC screen

Additional fields for other income 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
- Taxable income from insurance proceeds
- Other (itemize) (Detail worksheet is required)
- Ordinary income from partnerships (See Notes, below)

- Data from Schedules K-1 received from partnerships should be entered on the **K1P** screen. (Click the **K1P Screen** link on the “Ordinary Income from Partnerships” line of the INC screen or click the **K1P** link located on the first **Other Forms** tab of the **Data Entry Menu**.)

NOTES

- Certain “extender” credits are no longer available. Because, in certain situations, credit amounts can be carried forward from 2017 to a 2018 return, the screens are still included in the program. Amounts from the following screens no longer flow to line 10 of Form 1120:
 - **6478** (Form 6478, Biofuel Fuels Credit)
 - **8864** (Form 8864, Biodiesel and Renewable Diesel Fuels Credit)

COMPENSATION OF OFFICERS (FORM 1125-E)

Form 1125-E, Compensation of Officers, is not generated automatically with the return unless it is required—in other words, unless total receipts (line 1a, plus lines 4 through 10) on Form 1120 are \$500,000 or more. To force the program to print Form 1125-E, from the **PRNT** screen, select **Force Form 1125-E, Officer Compensation**.

Officer Information

Use screen **E** to enter officer information and compensation amounts. Press **PAGE DOWN** to enter additional officers. Screen **E** totals are calculated and carried to line 12 of Form 1120.

The total of officer compensation can be entered in the **Officer compensation** override field on the **DED** screen (generally used when Form 1125-E is not required). An entry in that field overrides any calculations from screen **E**, changing lines 12 and 27 of Form 1120, but it does not change the numbers on Form 1125-E.

TIP You may “truncate” the officer’s Social Security Number in the **ID number** field of screen **E**. To do so, enter five zeros (“00000”) and then the last four digits of the SSN. You must press **CTRL+F** to “force” the program to accept the truncated number.

IMPORTANT

Neither “FOREIGNUS” nor “APPLD FOR” is acceptable in the **ID number** field. Returns with “FOREIGNUS” or “APPLD FOR” in this field are not eligible for e-file.

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 either signs the federal or state paper returns or is the contact person for the books (state return only).

Ownership & Participation

The **Ownership and Participation** fields on screen **E** are required. 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%.

SALARIES AND WAGES

Use the **DED** screen to enter salaries and wages paid. Note that the **DED** screen amount is reduced by the amount, if any, of credit from Form 5884. Also note that the “Salaries and wages” field on the **DED** screen is an adjustment field; an amount entered here adjusts any amount entered on screen **F** (Form 1040, Schedule F, Profit and Loss from Farming) in the “Labor hired” field.

NOTE

The “Salaries and wages” amount should *not* include compensation of officers. Enter officer compensation data either on screen **E** or as “Officer Compensation” on line 12 of the **DED** screen.

REPAIRS AND MAINTENANCE

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

BAD DEBTS

Use the “Bad debts” line 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

NOTE

Enter deductible non-business bad debts as a short-term capital loss on screen **8949 (Capital Gains & Losses)**.

Cash method 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**, lines 24A and 24b.

TAXES AND LICENSES

Enter tax and license amounts in the **Taxes and licenses** section of the **DED** screen. Click the **Detail** link to list the various sources of taxes and licenses. Amounts are combined and the sum generated on Form 1120, line 17 (“Taxes and licenses”).

NOTE

These amounts also appear on the Taxes and Licenses Attachment (“Wks Tax/Lic”). To keep the notification from appearing, go to the **PRNT** screen (accessible from the **General** and the **Miscellaneous** tabs of the **Data Entry Menu**) and select **Suppress printing form and attachment references**.

State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen flow to the tax computation worksheet (Form 1120-W). The state tax amount flowing from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used.

INTEREST EXPENSE

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**.

CHARITABLE CONTRIBUTIONS

The **DED** screen provides two fields for entering data for line 19, “Charitable contributions” (Figure at left)

Consulting.....
 19 Contributions.....
 19 Qualified conservation contributions.....
 Credit and collection costs.....
 Delivery.....

Contributions — Enter the gross amount of contributions for the year that are subject to the 10% limit on deduction.

• **Qualified conservation contributions** — Enter the

gross amount of contributions for the year that are not subject to the 10% limit. These contributions have a carryover period of 15 years; see IRS instructions for details.

The program calculates the contributions allowed and determines carryover capability for amounts entered in both fields for line 19 and reflects the applicable amount on Form 1120. (Refer to the Contribution Limitation/Carryover Worksheet (“Wks Contrib”) for calculation of allowed amount.) Contribution carryovers from prior years are entered on the **LOSS** screen.

Note that both fields of line 19 are adjustment fields; entries here adjust amounts flowing from screen **K1P**, line 13, codes **A** and **B**.

DEPRECIATION

Enter depreciation on the **4562** screen. Select a form from the **For** drop list (Figure 2-2 on page 21) to associate the depreciable item with the correct form or activity. Data from the **4562** screens flows to Form 1120 and to the selected schedules or forms.

For: *Use <F3> to switch to go
 Multi-form code:
 1120 Corporation Main Form, Form 1120-C, or 1120H
 COGS Schedule A, Cost of Goods Sold
 F Schedule F, Profit or Loss From Farming

Figure 2-2: Selecting “1120” from the **For** drop list of the **4562** screen

NOTE

For more on the **For** drop list in Drake Tax, see “Associating One Screen with Another,” in Chapter 3 of the *2018 Drake Tax User’s Manual*

DEPLETION

Enter depletion deductions on the **DED** screen. See Form 1120 instructions and Pub. 535 for more information on depletion.

Oil and Gas Depletion Worksheet

The **DEPL** screen is accessible from the first **Other Forms** tab of the **Data Entry Menu**. Create a separate depletion worksheet for each oil or gas interest. (Press PAGE DOWN to open a fresh instance of the **DEPL** screen.) Enter data for cost depletion, percentage depletion, or for both. If data for both cost and percentage depletion is entered, the program does both computations and sends the one that gives the corpora-

Screen Code:
DEPL

tion the best deduction to the proper form or schedule. (Not all corporations have the option of using either method. Consult Publication 535 for additional information.)

Entries on the **DEPL** screen flow to the Oil and Gas Depletion Worksheet (“Wks DEPL” in View/Print mode).

ADVERTISING

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

PENSION AND PROFIT-SHARING

An entry on this line of the **DED** screen adjusts an amount entered on screen **F** (Schedule F, Profit or Loss from Farming) and reduces this expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs. The total flows to line 23 of Form 1041.

EMPLOYEE BENEFIT

Contributions to employee benefit programs not claimed elsewhere on the return that are not an incidental part of any plans are entered in an adjustment field on the **DED** screen. An amount entered on this field adjusts the amount flowing from Schedule F, Profit or Loss from Farming.

DOMESTIC PRODUCTION ACTIVITIES

The Domestic Production Activities Deduction (DPAD) has been repealed for tax years beginning after 2017, with limited exceptions.

NEW FOR
2018

Beginning in 2018, a taxpayer is eligible for the DPAD on the federal 1120 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.

OTHER DEDUCTIONS

Enter all other deductions on the **DED** screen. The program calculates these amounts and incorporates the total into line 26 (“Other deductions”) of Form 1120. The following deductions, credits, adjustments, and exclusions also flow to line 26:

- Amortization from Form 4562
- Credit from Form 8820, Orphan Drug Credit
- Exclusion from Form 8873, Extraterritorial Income Exclusion
- Credit from Form 8941, Credit for Small Employer Health-Insurance Premiums

NOTES

Drake Tax automatically calculates meals and entertainment limitations.

A Detail Worksheet is opened when you type an amount in the “Other (itemize)” field of the **DED** screen.

NOL CARRYBACKS AND CARRYFORWARDS

Screen Code: **J** Enter NOL carrybacks from future years to the current year on screen **J (Loss Carry-back, Tax Computation, Payments)**. To enter multiple carryback amounts, double-click in the field to open a Detail Worksheet.

Screen Code: **LOSS** Use the **LOSS** screen to enter NOL carryforwards, capital losses, and contribution carryforwards from prior years. Use screen **J** to enter current-year carrybacks to prior years.

TAX, REFUNDABLE CREDITS, AND PAYMENTS

Screen **J** has fields for completing the “Tax, Refundable Credits, and Payments” section of Form 1120. Note that some fields are overrides. Click in a field and press F1 to view more information on a field.

TOTAL TAX

For corporations that belong to a controlled group, complete all applicable fields on screen **J**. If allocating income to the various brackets on this screen, you must enter 0 (zero) in the fields of the brackets to which no income is allocated.

The total tax from Schedule **J** is calculated and carried to line 31 of Form 1120.

NEW FOR
2018

Schedule O, in the past, was used to report the apportionment of taxable income, income tax, and certain tax benefits between all component members of a controlled group. With the changes to tax law, such apportionment is no longer allowed, so Schedule O is purely an informational form this year.

FORM 3800

Use screen **3800** to claim current-year business credits that are not supported by Drake Tax.

Screen code: **3800** In **Part III - General Business Credits**, enter the amounts of nonpassive and passive activities of the unsupported credits.

- Returns with these current-year credit forms that are not supported by Drake Tax must be paper-filed.
- Pass-through credits from those unsupported forms are supported by Drake Tax. Enter these pass-through credits on screen **K1P**. Enter carryforwards on screen **GBC**.
- To enter data for credits that are supported by Drake Tax, use the credit's screen. For example, use the **8820** screen for Form 8820, Orphan Drug Credit.

Enter any unused current-year credit being carried back and used in 2017 in the **Amount of Carryback** text box on screen **3800**.

NOTES

**Carrybacks
and Carry-
forwards**

Use screen **GBC** for reporting general business credit (GBC) and eligible small business credit (ESBC) carrybacks and carryforwards, and to enter passive activity credit carryforwards for Form 8582-CR.

Screen code: **GBC**

Passive activities credit carryforwards are updated to screen **GBC**.

To use the **GBC** screen:

1. Mark an appropriate check box at the top of screen **GBC**.
2. If appropriate, enter an EIN in the **Activity EIN** field; if that EIN matches one entered on a **K1** screen, the program matches the passive activity carryforward to the current-year credit for Form 8582-CR.
3. Enter the **Activity Name**.
4. From the **Description of credit** drop list, select the description of the credit for the amounts being carried forward from prior years or being carried back from a future year. If necessary, enter the **Amount Changed Information** if the amount was changed from the original amount of the credit.
5. From the **Year Originated** drop list, select the year the credit was originally generated and the amount of the credit for the year generated.

Press PAGE DOWN to enter the carryforward or carryback amounts of another credit.

TIP

In the **Amount of Original Credit Previously Used** section of screen **GBC**, type in the amounts of credit carryforward used in a previous year for a true historical record. The program computes the remaining amount of the credit each year you use Drake Tax.

ESTIMATED TAXES AND APPLIED REFUNDS

Screen code: **ES**

Enter on screen **ES** (available on the **Miscellaneous** tab) the estimated corporation taxes paid. If necessary, use screen **W** to override 2018 estimated taxes paid and apply any overpayments from 2018 to 2019. (Click the **Screen W** link at the top of the **ES** screen to open the **W** screen.)

NOTE

Estimate vouchers are not used in federal corporation tax returns.

**Over-
payment**

Overpayments are not automatically applied unless 2019 estimates are being calculated. If no estimates are required, enter the application of the overpayment using the **Overpayment applied** override fields.

**Quick
Refund**

To file Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax, go to the **PRNT** screen (accessible from the **General** and the **Miscellaneous** tabs of the **Data Entry Menu**) and mark the **Calculate Form 4466** box. This is the only entry necessary to produce the form. (There is also a link to the **PRNT** screen from the first **Other Forms** tab of the **Data Entry Menu**. Click **4466 Application for Quick Refund**.)

Under-payment

Use screen **2220** to enter information for Form 2220, Underpayment of Estimated Tax by Corporations. Note that the **2220** screen in Drake Tax consists of two screens. Press PAGE UP and PAGE DOWN to move back and forth between the screens.

NOTE

The program retains the underpayment and penalty rates as of 12/31 of the calendar year.

ESTIMATED STATE TAXES

Enter 2018 estimates and 2019 overpayments for state or city returns on the **ES** screen.

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 to file federal estimated taxes, and to e-file and pay state estimated taxes, see “Estimated Taxes,” in Chapter 5 of the *2018 Drake Tax User’s Manual*.

NOTES

If you are not filing four quarterly state vouchers—for instance, if filing too late to pay first quarter payment—the program adds the amount of the missed payment to the next available voucher. Enter “o” in the **Estimate amount** voucher field for the quarter the payment was not made.

The **Increase/Decrease calculated estimates by...** text box on the **ES** screen allows you to adjust the total estimated taxes due.

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 direct-deposited. To access this form in Drake Tax, go to the **DD** screen, accessible from the **General** tab of the **Data Entry Menu**.

Screen Code: **DD**

When filling out the **DD** screen:

- If the federal refund is to go to the account listed, select **Yes** for the **Federal selection** drop list; otherwise, select **No**. (Default is **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**).
- Re-enter the routing number, account number, and type of account to verify (Figure 2-3).

Account Information

Account #1

Federal Account and State (if same as Federal)

Deposit selection: Federal selection..... Y State/city selection..... CA

Name of financial institution: First Bank and Trust

RTN: 123456789 Account number: 9876543210

RTN: 123456789 Account number: 9876543210

Repeat Account Information

Type of account: Checking Savings
 Checking Savings

Figure 2-3: Federal section of **DD** screen (also **8050** screen)

If receiving refunds from different state tax authorities, use the **State Account** boxes on the **DD** screen to indicate where other state refunds should be deposited.

ELECTRONIC FUNDS WITHDRAWAL (DIRECT DEBIT)

Screen Code:
PMT

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 (line 35, “Amount owed”) is to be withdrawn on the return due date. To indicate otherwise, complete the **Requested payment date** override fields (see the blue square in Figure 2-4) 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 date the return is transmitted.

REQUIRED INFORMATION

A **Withdrawal selection** (item #1 in Figure 2-4 on page 26) is required if the program is to direct tax authorities to withdraw funds from the corporation’s bank account.

Account Information

Account #1

Federal Account and State (if same as Federal)

Withdrawal selection: Federal selection..... Y State/city selection..... NC

Name of financial institution: Bangor Savings Bank

RTN: 123456789 Account number: 987654321

Repeat Account Information

Type of account: Checking
 Checking

Federal: Federal payment amount..... = Requested payment date.... = Daytime phone:
 Payment is for..... 1120 7004 1120X

State: State payment amount..... = Requested payment date.... = Daytime phone:

Figure 2-4: Required fields on **PMT** screen: withdrawal selection (1); account information (2); specified return (3). The blue square is for the optional payment date override.

The name of the financial institution, RTN, account number, and account type are required. As with the **DD** screen, the **RTN**, **Account number**, and **Type of account** data must be entered twice (item #2 in Figure 2-4).

Finally, the **PMT** screen must indicate the return to which the payment data applies (item #3 in Figure 2-4). Mark the box of the applicable return type: **1120, 7004**, or **1120X**.

WITHDRAWAL FROM MULTIPLE ACCOUNTS

Only one account can be designated for direct debit of funds for payment of federal 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 April 15, 2019. Fiscal year returns are due on the 15th day of the fourth month after the end of the corporation's business year for corporations with other than a June 30 ending date; corporations with an ending date of June 30 must file their returns by the 15th day of the third month after the end of their business year.

By filing Form 7004, a corporation can extend the deadline. The 7004 extends the deadline six months to October 15 (seven months for corporations with June 30 ending dates).

Use one of the following options to file an extension for an 1120, 1120-C, or 1120-H:

- Go to the **7004** screen in Drake Tax and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen and select **Prepare Form 7004 extension based on screen 1 info**.

SIGNING THE RETURN

Electronic PIN signatures are required for e-filed returns. To e-file a return, complete all fields on the **PIN** screen. A return cannot be e-filed if the **PIN** screen fields, including the title and signature (name) of the officer signing the return, are not complete.

An 1120 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 and "sign" the return (enter his or her PIN) in the space provided on the **PIN** screen. If it is prepared by an employee or officer of the corporation, go to screen 1 and select **NONE** in the **Firm #** and **Preparer #** drop lists.

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

- If the return preparer and ERO (entered in **Setup > ERO & Account Information**) 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 still be completed in Drake Tax to e-file. For information on how to complete this setup window, see *2018 Drake Tax User's Manual*. See the IRS instructions for further details on signature requirements.

TIP

If you mark the "Signs return" check box on screen **E**, that officer's information flows to the signature line of the return so you won't have to reenter it on the **PIN** screen. You will still have to enter an officer's PIN and signature date on the **PIN** screen for e-file.

AMENDING A RETURN

The program can automatically fill the **1120X** screen for Form 1120X, Amended U.S. Corporation Income Tax Return.

CAUTION

When you amend a return in Drake Tax, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see "Archive Manager" in Chapter 6, "Return Results," of the *2018 Drake Tax User's Manual*.

Returns Previously Prepared in Drake Tax

From the **Data Entry Menu** of an 1120 return, enter X in the selector field and press ENTER. (Screen X is also accessible from the first **Other Forms** tab.) At the prompt, select **Yes** to automatically fill the screen with data from the original return (that is, the return as originally entered in Drake Tax). If the corporation's name or address information has changed, enter the new information on screen **X**. Make all other necessary changes to the *regular data entry screens*.

Select screen **X2** from the first **Other Forms** tab (or press PAGE DOWN while in screen **X**). Enter the line number from the **X** screen that corresponds with the changes that were made in data entry. (For instance, if you made a change in the tax on screen **J**, enter 4 (for "Tax") in the **Line Number** field of the **X2** screen.) Enter an explanation in the **Explanation of changes** text box.

If more than one item was changed in data entry, press PAGE DOWN to open another screen **X2**. Enter the line number from screen **X** that corresponds to this change and enter another explanation.

When you go to View/Print mode, the program calculates the amended return.

New Returns

To amend a return not previously prepared in Drake Tax, create an 1120 return in Drake Tax and open screen **X**. Complete the applicable fields on this screen, and then enter the amended data in the appropriate other screens, as described in the following example.

Example: An 1120 return was filed using a different tax program, but gross rental income was not reported on line 6 of the return. To amend the return:

1. Create an 1120 return in Drake Tax.
2. From the **Data Entry Menu** of the return, open screen **X**.
3. Complete all applicable fields on screen **X**.
4. Close screen **X** and open the **INC** screen.
5. Enter the amount of unreported income on line 6.
6. Close the **INC** screen and open screen **X2**.
7. Enter the line number from the **X** screen that corresponds to the changes that were made in data entry. (In this instance, if you made a change to income on the **INC** screen, enter 1 (for “Total Income”) in the **Line Number** field of the **X2** screen.
8. Enter an explanation in the **Explanation of changes** text box.
9. Calculate and view the return. Note the adjustments made on Form 1120X.

e-File an Amended Return

To add Form 1120X to the queue for e-file, go to the **EF** screen for the return (accessible from the **General** tab of the **Data Entry Menu**) and mark the **1120-X** box. For detailed instructions on e-filing the returns in the queue, see Chapter 8, “e-File,” in the *2018 Drake Tax User’s Manual*.

SCHEDULE K

Use screen **K** to enter data for Schedule K, Other Information. Screen **K** should also be used for Schedule K of Form 1120-C. Detailed here are some specific areas that might need your attention.

SCHEDULE K, LINE 3

On line 3 (line 5 of the **1120C** column) of screen **K**, type the EIN and name of the parent corporation if the corporation is a subsidiary in an affiliated group or a parent-subsidiary controlled group.

Be aware of the following guidelines from the IRS:

- If the corporation is an “excluded member” of a controlled group (see definition in the Instructions for Schedule O (Form 1120)), it is still considered a member of a controlled group for this purpose.
- An affiliated group is one or more chains of includable corporations (section 1504(a)) connected through stock ownership with a common parent corporation. The common parent must be an includable corporation and the following requirements must be met:
 - The common parent must directly own stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of at least one of the other includable corporations.

- Stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of each of the other corporations (except for the common parent) must be owned directly by one or more of the other includable corporations.
- For this purpose, the term “stock” generally does not include any stock that (a) is nonvoting, (b) is nonconvertible, (c) is limited and preferred as to dividends and does not participate significantly in corporate growth, and (d) has redemption and liquidation rights that do not exceed the issue price of the stock (except for a reasonable redemption or liquidation premium). See section 1504(a)(4).

SCHEDULE K, LINE 4

If a corporation owned, directly or indirectly, 20 percent or more, or owned, directly or indirectly, 50 percent or more of the total voting power of all classes of the corporation’s stock entitled to vote, the applicable data appears on Schedule G. In Drake Tax, Schedule G data is entered on screens **G1** and **G2**, accessible through the **G1 Screen** and **G2 Screen** links on line 4 of screen **K**, or from the **General** tab of the **Data Entry Menu**.

Screen Codes: **G1** and **G2**

If the stock is owned by *any foreign or domestic corporation, partnership, or trust*, enter on screen **G1** the name and EIN of the entity, the type of entity (foreign or domestic corporation, partnership, trust, etc.), the country of the corporation organization, and the percentage of stock the entity owns.

If the stock is owned by an *individual or estate*, enter on screen **G2** the name and ID number of the individual or estate, country of citizenship, and percentage of stock owned.

Use the CTRL+PAGE DOWN function to open additional (blank) **G1** or **G2** screens. For more information on line 4 of Schedule K, see the IRS instructions.

SCHEDULE K, LINE 5

If the corporation owned stock in other corporations or partnerships or the beneficial interest in a trust, enter the information on the **K5A** or **K5B** screen. Click the **K5A Screen** or **K5B Screen** links on the **K** screen or from the **General** tab of the **Data Entry Menu** to access fields for entering this information.

Screen Codes: **K5A** and **K5B**

Use the CTRL+PAGE DOWN function to open additional (blank) **K5A** or **K5B** screens. For more information on line 5 of Schedule K, see the IRS instructions.

SCHEDULE K, LINE 7

Complete the fields on line 7 of screen **K** if a foreign person owned, directly or indirectly, at least 25% of the total voting power of all classes of the corporation’s stock entitled to vote, or the total value of all classes of stock of the corporation. (If there is more than one 25%-or-more foreign owner, complete the fields for the person with the

highest percentage of ownership.) Enter the percentage that person owned and the owner's country of residence.

NOTE

Generally, a 25% foreign-owned corporation with a reportable transaction during the tax year must file Form 5472, Information Return of a 25% Foreign Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business (screen **5472** in Drake Tax). See Form 5472 for filing instructions and penalties for failure to file.

See section 6038A(c)(5) and the related regulations for the constructive ownership rules of section 318 that apply in determining if a corporation is foreign owned.

NOTE

If another entity owns 20% or more of the client's corporation, or owns 50% or more of the corporation's stock entitled to vote, see "Schedule K, Line 4."

SCHEDULE K, LINE 13

On line 13 of screen **K**, select **Yes** if the corporation's total receipts (line 1a + lines 4 through 10 on page 1 of Form 1120) are less than \$250,000 for the tax year, and its total assets at the end of the tax year are less than \$250,000.

If the answer to line 13 is **Yes**, in the lower text box of line 13 enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. (An entry here is added to the amount calculated from entries on line 5, "Distributions," on the **M2** screen and reflected on page 5, line 13, of the 1120 return.)

NOTE

If the answer on line 13 is **Yes**, the corporation is not required to complete Schedules L, M-1, or M-2. To force the program to print these forms, go to the **PRNT** screen and select **Force Schedules G (1120-C), L, M-1, and M-2 to be printed**.

BUSINESS INTEREST EXPENSE AND FORM 8990

New for 2018: The Tax Cuts and Jobs Act (P.L. 115-97) amended section 163(j) to reflect a limitation on the deduction for business interest expense for certain taxpayers in tax years beginning after 2017. Use Form 8990, Limitation on Business Interest Expense Under Section 163(j), to figure the amount of business interest expense that is deductible and the amount to carry forward to the next year.

Screen Code:
8990

Screen **8990** is available in Drake Tax from the second **Other Forms** tab of the **Data Entry Menu**.

If section 163(j) applies to this corporation, the business interest expense deduction allowed for the tax year is limited to the sum of:

- Business interest income
- 30% of the adjusted taxable income
- "Floor plan" financing interest expense

For definitions of these and other terms, see the Instructions for Form 8990. Also become familiar with Proposed Regulations sections 1.163(j)-1 through 1.163(j)-11

DISALLOWED BUSINESS INTEREST CARRIED FORWARD

The amount of any business interest expense that is not allowed as a deduction under section 163(j) for the tax year is carried forward to the following year as a disallowed business interest expense carryforward.

WHO MUST FILE

According to the IRS instructions, the following taxpayers must file this new form:

- A taxpayer with business interest expense, a disallowed business interest expense carryforward, or current-year or prior-year excess business interest expense (unless an exclusion from filing applies).
- A pass-through entity allocating excess taxable income or excess business interest income to its owners (that is, a pass-through entity that is not a small business taxpayer), regardless of whether it has any interest expense.
- A taxpayer who is a U.S. shareholder of an applicable controlled foreign corporation (CFC) and such CFC has business interest expense, a disallowed business interest expense carryforward, or is part of a CFC group election generally, must attach Form 8990 with Form 5471.

If a pass-through entity is not required to file Form 8990 because it is a small business taxpayer, but a partner or shareholder (or owner?) is required to file Form 8990, the pass-through entity may be requested to provide certain information so that the partner or shareholder can complete his or her individual return.

See “Ownership of pass-through entities not subject to the section 163(j)” in the Instructions for Form 8990 for details.

Attaching Form 8990

Complete screen 8990, then view the return (press CTRL+V or click the **View/Print** icon on the screen **8990** toolbar). From the **View/Print** window toolbar, click **Attach PDF**. The “Form 8990” attachment should have a green check mark. If so, click **Exit**. The attachment will be e-filed with the return.

SCHEDULE K-1

The 1120 package includes a **K1P** screen (accessible from the first **Other Forms** tab of the **Data Entry Menu**) for entering information from Form 1065, Schedule K-1. This screen works the same as it does for the other packages, with amounts automatically flowing to the appropriate forms, schedules, and lines.

TIP

See “K-1 Export” on page 33 details on exporting K-1 data directly from a partnership return into the corporation’s **K1P** screen of Drake Tax.

In addition:

- Ordinary income flows to Form 1120, page 1, line 10, “Other income,” with the partnership name and EIN (required information).
- Ordinary losses flow to Form 1120, page 1, line 26, “Other deductions,” with the partnership name and EIN (required information).

Depending on your setup, the partnership name and EIN will appear in a statement (for example, “Statement #1”) referenced on line 10 or line 26.

Codes or lines that don’t flow to any other place may require additional information not available to the program and must be manually entered in the proper place in the return.

Missing ID Number

If the corporation received a Schedule K-1 from a partnership and the partnership did not have an ID number—for instance, if the partnership was foreign and did not have an EIN—type “F” into the **Partnership EIN** field of the **K1P** screen and the word FOREIGNUS is automatically entered. If the partnership had applied for an SSN or EIN but had not yet received an ID number, type “A” to have APPLD FOR entered in the **Partnership EIN** field.

K-1 EXPORT

Take the following steps to export K-1 information from a partnership return into the **K1P** screen of an 1120 return. (The **K1P** screen in the 1120 does not have to be created beforehand.)

1. Open the partnership (1065) return in Drake Tax and go to View/Print mode.
2. Click **K1 Export** in the View 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. All SSNs and EINs in the list are eligible for export. Remove the check mark from the box to the left of any EINs or SSNs you do not want to export (Figure 2-5).
4. Click **Export**. The K-1 data is displayed in the 1120 return in the program.

Export K1s X

K1 Export Utility
 This screen gives a selectable list of client SSNs that can be exported.
 Click the "EXPORT" button to export this list.
 Click the "EXIT" button to exit without exporting.

SSN	Name	File Name
<input type="checkbox"/> 106510651	Pat's Packaging	62a39560.dp6
<input checked="" type="checkbox"/> 112011201	Seay's Trucking	CA82DA60.D...
<input type="checkbox"/> 22222222	Milo Mindbender	978DE3D0.DI6
<input type="checkbox"/> 400006665	William Carter	4FE97D71.DI6
<input type="checkbox"/> 400006666	Amelia Carter	4FE97D71.DI6

Print | **Export** | Exit

Figure 2-5: Exporting K-1 data from a partnership return into the corporation return for Seay's Trucking

OIL AND GAS DEPLETION WORKSHEET

The Oil and Gas Depletion Worksheet calculates oil and gas depletion and gives your clients the best possible deduction.

The **DEPL** screen is completed in the Business packages in a similar fashion to the 1040 package. For details, see “Oil and Gas Depletion Worksheet” on page 21 of this supplement and in Chapter 5 of the *2018 Drake Tax User’s Manual*.

STATE-SPECIFIC INFORMATION

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 link to screen **2** is on the **States** tab, (or enter **2** in the selector field and press **ENTER**.)
- The company information fields on screen **2** apply for the resident state only.

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

CONTACT INFORMATION

If certain contact information required for state purposes is different from that entered on screen 1, use screen 2. This screen has fields for the following types of contact information:

- Name and address of registered agent
- Principal place of business
- “Books in care of”
- General contact information for the name, title, email address, ID number, and telephone number of the corporation’s contact person.

OTHER STATES

Data for states other than the resident state must be entered manually in state data entry. To access state data entry, select the **States** tab from the **Data Entry Menu**, 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. This screen (Figure 2-6) provides one central location for entering all state apportionment information instead of having to open each needed state’s screen.

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

The individual state apportionment screens can be used to override data entered on the **APPT** screen.

Figure 2-6: State APPT screen

NOTE

Mark the **Zero Apportionment** check box (Figure 2-6) 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 open the **Payroll**, **Property**, and **Additional Property** information tabs for each state selected. These screens and their uses are listed in Table 2-1:

Table 2-1: APPT Screens

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

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

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

NOTES

- The **Ending** amount entered on the **Property** and **Additional Property** screens in Drake18 will become the **Beginning** amount for property on the **APPT** screen when the client's return is updated next year in Drake19.
- Not all data entered on screen ATP is updated each year.

OTHER INFORMATION AND OVERRIDES

Screen 1 includes fields for miscellaneous codes, invoice numbers, and several override fields. See “Listing a Different Firm, Preparer, or ERO on a Return” in Chapter 2 and “Miscellaneous Codes” in Chapter 5 of *2018 Drake Tax User’s Manual* for more information.

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.

FLOW OF INFORMATION

Many of the entries made elsewhere (such as inventory information from Schedule A) flow automatically to the generated Schedule L. Depreciable asset information from the **4562** screen and intangible assets and amortization also flow to Schedule L.

Use the corporation's balance sheet to enter data directly onto Schedule L.

NOTE

See "Importing Trial Balance Information" on page 54 for information on using the trial balance import to enter Schedule L data.

RECONCILIATION TOTALS DISPLAYED

Schedule L and Schedule M-2 reconciliation totals are displayed on screens **L**, **L2**, and **M2** to facilitate reconciliation of the balance sheet (item #1 in Figure 2-7 on page 37).

Schedule L - Balance Sheet - Beginning of Year

1120C	1120	Assets	(a)	(b)	Total
1	1	Cash.....		54321	54321
2a	2a	Trade notes & accounts recv.....	1111		1111
2b	2b	Less allowance for bad debts.....	2222		2222
3	3	Inventories.....		= 32100	32100
N/A	4	U.S. government securities.....		1212	1212
5	5	Tax-exempt securities.....		4444	4444
4	6	Other current assets.....			SCH2 Screen
6	7	Loans to shareholders.....		789	789
7	8	Mortgage & real estate loans.....		987	987
N/A	9	Other investments.....			SCH2 Screen
8a	10a	Depreciable assets*.....	= 42424		5432
					42424

Schedule L - Balance Sheet - End of Year

1120C	1120	Assets	(c)	(d)	Total
1	1	Cash.....		76543	76543
2a	2a	Trade notes & accounts recv.....	12345		12345
2b	2b	Less allowance for bad debts.....	11111		11111
3	3	Inventories.....		= 20202	20202
N/A	4	U.S. government securities.....		12321	12321
5	5	Tax-exempt securities.....		8787	8787
4	6	Other current assets.....			SCH2 Screen
6	7	Loans to shareholders.....		55555	55555
7	8	Mortgage & real estate loans.....		98765	98765
N/A	9	Other investments.....			SCH2 Screen
10a	Depreciable assets*.....	=		5555	5555

Figure 2-7: **Beginning-** and **End-of-Year** totals displayed on screens **L** and **L2** (#1); force printing end-of-year totals (#2)

Note that the totals from the balance sheet's subsidiary schedule (**SCH2 Screen** links) also appear in the **BOY Totals** and **EOY Totals** columns of the **L** and **L2** screens.

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

NOTE

The end-of-year totals also appear on screen **M2 (Retained Earnings)**. From either screen **L**, **L2**, or **M2**, press PAGE UP and PAGE DOWN to toggle among screens **L**, **L2**, and **M2** to make reconciliation easier.

FORCE-PRINTING FINAL END-OF-YEAR TOTALS

Normally, if you mark **Final** on screen **1**, indicating that this is a final-year return, Drake Tax “zeros out” the **EOY Totals** column of Schedule L. Mark the **Force-print final end of year** check box on screen **L** (see item #2 in Figure 2-7) to display those totals in the **EOY Totals** column.

THE SCH2 SCREEN

The **SCH2** screen (see Figure 2-8) is used to provide detailed information required by the IRS for certain lines on Schedule L. The amounts are carried to Form 1120 and printed on an attached statement.

This screen can also be used in place of the actual **L** screen in Drake Tax. If you use this screen for all applicable lines on Schedule L, you *do not* need to make any entries on screen **L**.

NOTE

To access the **SCH2** screen from screen **L**, click an **SCH2 Screen** link. Press Esc to return to screen **L**.

Entering Information

To create a statement for a line using the **SCH2** screen, select the desired line from the **Line Number** drop list and enter descriptions and their corresponding amounts.

An entry on any other line will result in a statement that is not e-filed.		
Line Number		
6 Other current assets		
	Description	Beginning of year
	Inverting investment	5432
	Parts inventory	12345
	Loans receivable	50607
		5555
		54321
		40506

Figure 2-8: **SCH2** screen fields for line number, description, and amounts

Once the information is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen.

NOTE

All line selections and screen descriptions are carried to the next year, and year-end amounts are carried to the beginning-of-year column, when the returns are updated.

Statements

The total amounts entered on the **SCH2** screen are not displayed on the actual **L** screen in the program. They are, however, printed on the *return* where needed, 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.

SCH2 and Trial Balance Import

Typically, one or more **SCH2** screens are needed for Schedule L items. Data for the **SCH2** screens cannot be entered directly into the trial balance worksheet, although the amounts must be included in the trial balance worksheet for the worksheet to balance. When the return is produced, Schedule L reflects the amounts imported from the trial balance worksheets but does not include the totals of the **SCH2** screens; this data must be entered on the **SCH2** screens.

See “**SCH2 Detail**” on page 62 for detailed instructions using the trial balance worksheet for **SCH2** items and amounts.

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. For example, if assets are \$1,000 and liabilities and capital are \$900, the program increases the unappropriated retained earnings by \$100.)

The program makes the adjustments due to differences in the balance sheet. Incorrect data entry could cause these differences but they are usually the result of one of the following issues:

- An asset deleted from **4562** screen (**Depreciation - Detail Items**) instead of being indicated as sold
- Beginning inventory amounts adjusted on Schedule A or ending inventory amounts were entered incorrectly
- Amounts 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 turn off this feature for a specific return, go to the **PRNT** screen and select **Turn off autobalance**.

NOTE

If you are using trial balance import, autobalance must be turned off prior to import. See “**Preparing to Use Trial Balance Import**” on page 55.

SCHEDULES M-1 AND M-3, RECONCILIATION OF INCOME PER BOOKS

Page 1 of Schedule M-3 is required if the balance sheet’s total assets at the end of the year equal or exceed \$10 million, and pages 1-3 of Schedule M-3 are required if the total assets equal or exceed \$50 million. If the corporation’s assets do not equal or exceed \$10 million but you want to voluntarily file Schedule M-3, or if the corporation’s assets do not equal or exceed \$50 million and you wish to file the complete

M-3, go to screen **M3** and make a selection from the **Voluntarily file M-3** drop list. Choose to print just page 1 of Schedule M-3 or the complete M-3.

NOTE

If the corporation is filing Schedule M-3, Schedule M-1 is not generated. Any entries on the **M1** screen (for Schedule M-1) should be deleted.

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, the corporation must reconcile book income with the taxable income.

Use the **M1** screen to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as “permanent” or “temporary,” and as “favorable” or “unfavorable.” Examples of both kind of differences are shown in Table 2-2.

Table 2-2: 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

SCHEDULE M-3

Schedule M-3 is completed using the following screens, all found on the **General** tab of the **Data Entry Menu**:

- **M3, M31, M32, and M33** — for **Parts I, II, and III** of the Schedule M-3
- **M3B** — for Schedule B Additional Information for M-3 filers
- **SCH3** — for subsidiary schedules for Schedule M-3 and Form 8916-A
- **M3S** — for supplemental statements
- **8916** — for reconciling of M-3 with taxable income for mixed groups
- **916A** — for supplemental attachments to the M-3

If the corporation is required to file (or voluntarily files) Schedule M-3, the corporation *must* file Form 1120 and all attachments and schedules, including Schedule M-3.

NOTE

Certain income and deduction amounts and adjustments flow from Form 1120 to Schedule M-3 and Form 8916A in the program, but all other M-3 data must be entered manually.

If Schedule M-3 is present in a return, no Schedule M-1 is generated.

Parts I-III

Part I of Schedule M-3 asks certain questions about the corporation's financial statements and reconciles financial statement worldwide net income (loss) for the corporation (or consolidated financial statement group, if applicable) as reported on Schedule M-3, Part 1, line 4, to net income (loss) per the income statement of the corporation for U.S. taxable income purposes, as reported on Schedule M-3, Part 1, line 11.

Parts II and III reconcile financial statement net income (loss) for the U.S. corporation (or consolidated tax group, if applicable) as reported on Schedule M-3, Part II, line 30 (column d), to taxable income (loss) as reported on Form 1120, page 1, line 28.

Certain items that are readily available flow to the M-3, but do not balance the M-3 automatically. To ensure that the M-3 balances, additional data entry may be required on the **M31**, **M32**, and **M33** screens.

Schedule B

Schedule B is required when a Schedule M-3 is present in a return. Use screen **M3B** for Form 1120 Schedule B, Additional Information for M-3 Filers.

The SCH3 Screen

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 **8916A** screens. For more information on using this type of screen, see "The SCH2 Screen" on page 38.

SCHEDULE M-2 (UNAPPROPRIATED RETAINED EARNINGS)

Information from Schedule M-2, "Analysis of Unappropriated Retained Earnings" ties to the Schedule L, line 25, portion of the balance sheet. Increases, distributions, and other decreases to the retained earnings are entered on Schedule M-2. Unappropriated retained earnings refer to corporation income that has not been distributed to shareholders that is available for dividend distribution.

M-2 TROUBLESHOOTING

The beginning Unappropriated Retained Earnings flow from Schedule L (Balance Sheet), and the "Net Income (Loss) per books" flows from the completed Schedule M-1 or M-3 on Form 1120. These numbers, combined with amounts entered on the **M2** screen, are used to calculate the ending Unappropriated Retained Earnings.

If the computed amount does not match the amount in the completed Schedule L (Balance Sheet), the system produces an EF Message that says the M-2 is out of balance. Solving this problem can be challenging, since it can have any of several causes:

- The beginning balance sheet entries are inaccurate

- The Beginning of Year unappropriated retained earnings amount (line 25 on screen L) entered on the **SCH2** screen for line 24 (“Retained earning-Appropriated”) is incorrect
- Autobalance is not turned on (See “Autobalance” on page 39.)
- The ending balance sheet entries are inaccurate
- The net income per the tax return is inaccurate
- The reconciling items on Schedule M-1 or M-3 need to be adjusted
- The reconciling items on Schedule M-2 need to be adjusted

If the items are off by a couple of dollars or less, resolve the problem by entering a reconciling item on the **M2** screen:

1. Double-click in a field on the **M2** screen to open a detail (CTRL+W) worksheet.
2. Enter the word “Rounding” as the description and enter an amount.
3. Press ESC. The program returns to the **M2** screen.

If the problem is not resolved, it may be necessary to do a detailed comparison between the corporation’s financial records and the completed return information.

SCHEDULE O (CONTROLLED GROUP INFORMATION)

New for 2018: Schedule O, in the past, was used to report the apportionment of taxable income, income tax, and certain tax benefits between all component members of a controlled group. With the changes to tax law, such apportionment is no longer allowed, so Schedule O is purely an informational form this year.

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 Schedule M-1 or M-3. Manually reducing the expenses/deductions or increasing the income for these credits causes the return to be out of balance.

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

- Form 8912, Credit to Holders of Tax Credit Bonds (interest income)

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 8932, Credit for Employer Differential Wage Payments

- Form 8941, Credit for Small Employer Health Insurance Premiums

Certain “extender” credits are no longer available. Because, in certain situations, credit amounts can be carried forward from 2017 to a 2018 return, the screens are still included in the program. Amounts from the following screens no longer flow to line 10 of Form 1120:

NOTE

- **6478** (Form 6478, Biofuel Fuels Credit)
- **8864** (Form 8864, Biodiesel and Renewable Diesel Fuels Credit)
- **8844** (Form 8844, Empowerment Zone and Renewal Community Employment Credit)
- **8845** (Form 8845, Indian Employment Credit)

ADJUSTING CHARITABLE CONTRIBUTIONS/NOL

Corporations with a net operating loss (NOL) carryover from any taxable year must apply the special rule of IRC section 170(d)(2)(B) for charitable contributions. The rules are designed to prevent a double tax benefit through interaction of NOL and charitable contribution carryovers. The excess charitable deduction can reduce taxable income only once. Under these rules, a corporation’s charitable contributions carryover (but not the NOL carryover) must be reduced to the extent the charitable contribution deduction, in computing the taxable income of an intervening year, would increase the NOL to a succeeding year.

Limitation on Deduction

The total amount claimed cannot be more than 10% of taxable income (line 30) computed without regard to the following:

- Any deduction for contributions
- The special deductions on line 29b
- The deduction allowed under section 249
- Any net operating loss (NOL) carryback to the tax year under section 172
- Any capital loss carryback to the tax year under section 1212(a)(1)

To prevent the double benefit from the excess charitable contribution deduction when there is a charitable contribution on the return and an NOL carryover, the program makes the IRC section 170(d)(2)(B) adjustment. In this situation, the charitable contribution carryover amount is reduced on column C of the Contribution Limitation/Carryover worksheet (Wks Contrib View/Print mode), and the NOL carryforward is increased on the ATT_NOL worksheet.

ELECTIONS

The ability to make certain tax elections is included in the business packages. Elections are selected from the **Return Elections** section of the **ELEC** screen.

MAKING AN ELECTION IN DRAKE TAX

To indicate that the corporation is making an election:

Screen Code:
ELEC

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu** (or by typing ELEC in the selector field and pressing ENTER).
2. Make a selection from the **Election** drop list (Figure 2-9).

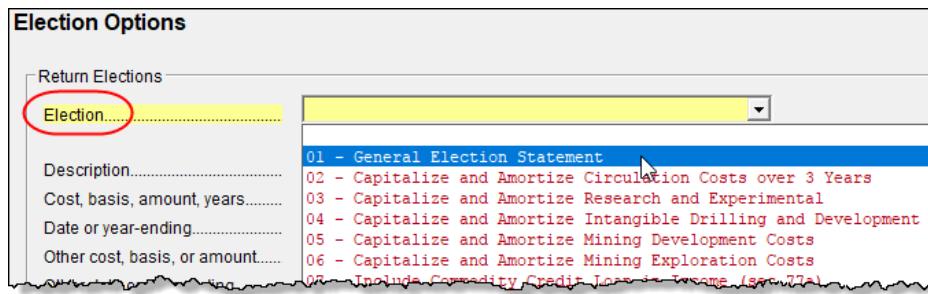


Figure 2-9: **Election** drop list

3. Complete all other fields as applicable. Press F1 in any field to learn if that field is required for your selection and the type of information that may be needed. For example, the help text for the **Date or year-ending** field (Figure 2-10 on page 44) shows that the field is required only for election options 08, 09, 11, and 15, and it explains what, specifically, should be entered for each of these elections.

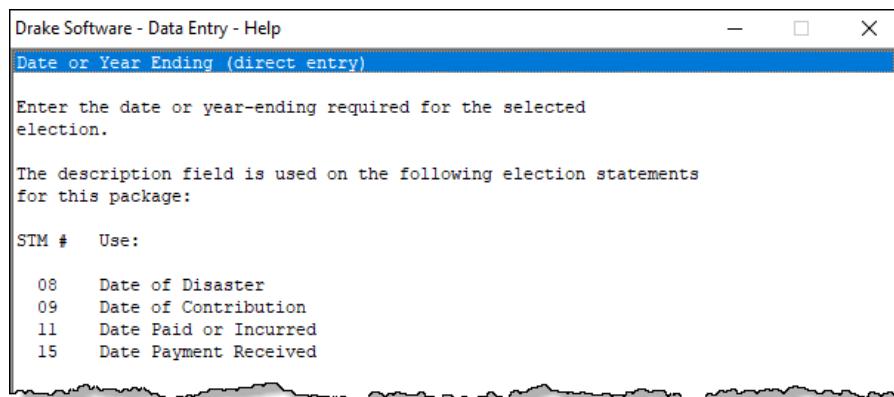


Figure 2-10: Help text for **Date or year-ending** field on **ELEC** screen

NOTE

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

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 "Statement ELXX," where "XX" is the number of the

election. For example, election “01 - General Election Statement” is generated as Statement EL01.

NOTE

If, at **Setup > Options > Calculation & View/Print** tab, you selected *not* to **Print only one overflow statement per page**, election statements are not numbered but each is listed within a “Statement.”

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

The **Building qualifies for Section 1.263...** check box on screen **4562** allows you to apply a small taxpayer Safe Harbor election to the building listed in the **Description** field. An election statement (“ELEC”) is produced in View/Print mode and the building description as entered in the **Description** field is included in the election statement.

NOTE

This election can also be made from the **Election** drop list on the **ELEC** screen.

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.

Another safe harbor election available from the **Elections** drop list on the **ELEC** screen is the Sec. 1.263(a) - 1(f) de minimis safe harbor election.

Election statements are generated with the return (Figure 2-11).

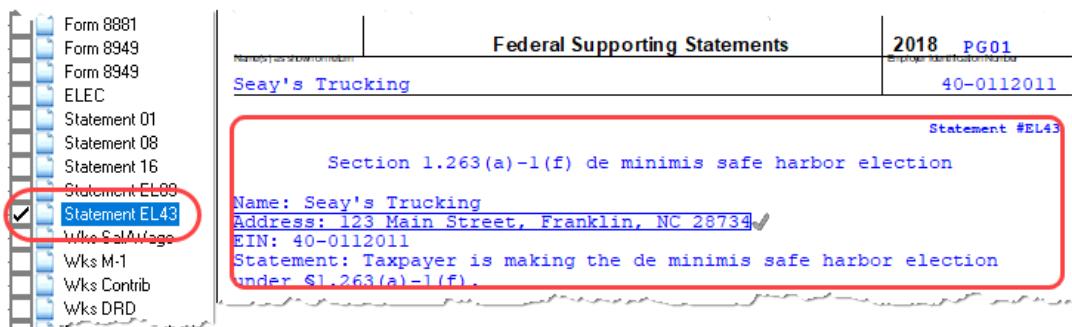


Figure 2-11: Election statement generated with **ELEC** screen selection

MAKING CHANGES ON THE FLY

Use the **PRNT** screen to override most program defaults.

SUPPRESSING/FORCING DOCUMENTS

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

You can force the program to print the following 1120 items on a return:

- Form 1125-E
- Schedules G (1120-C), L, M-1, and M-2
- Form 4562
- Next-year depreciation listing
- Inactive returns
- PIN for the preparer’s alternative electronic signature

NOTE

Form 1125-E is required if total receipts (line 1b + lines 4 through 10) are \$500,000 or more.

Schedules L, M-1, and M-2 are not required if receipts and total assets (Schedule K, line 13) are less than \$250,000.

The **PRNT** screen can also be used to suppress printing of the following items on a return:

- Form and attachment references (References are printed by default.)
- Form 4626, Alternative Minimum Tax—Corporations
- Proformas used for next year’s tax season

CALCULATION AND OTHER OPTIONS

The following calculation and other options are available on the **PRNT** screen:

- **Calculate Form 2220 penalty** — Select this box to have the program calculate the penalty for Form 2220, Underpayment of Estimated Tax by Corporations. (The program retains the rates as of 12/31 of the calendar year. If a corporation has a fiscal year end, the preparer must enter the effective rates manually.)
- **Do not calculate WK_1120W based on 2018 taxable income** — Worksheet Wks 1120W is an estimated tax worksheet based on the current tax year taxable income. Select this box to stop generation of this worksheet.
- **Calculate Form 4466 (application for quick refund)** — Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax. (A check mark in this box is the only entry needed to generate the form.)
- **Turn off autobalance** — For more information on the autobalance feature in Drake, see “Autobalance” on page 39.
- **Prepare Form 7004 extension based on screen 1 info** — Select this box to prepare a six-month extension based on the information that has already been entered into the return. Note that screen 1 must be completed to prepare an extension.

NOTE

To prepare Form 7004 based on information other than (or in addition to) that provided on screen 1, use the **7004** screen.

OVERRIDING OTHER SETUP OPTIONS

The following program defaults can be overridden from the **PRNT** screen:

- Filing instructions (federal and state)
- Envelope coversheets (corporation, IRS, state, and city)
- Date to print on return
- Due date to print on letter and filing instructions (see Note, following)
- Amount on Form 1120, page 1, item D (“Total assets”)
- IRS Service Center

NOTE

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

ELECTRONIC FILING

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

COMMON REJECT CODES

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

- **Reject Code F1120-307-01** — Filer’s TIN and “Name Control” in the return header must match data in the e-file database unless Form 1120, Item E (3), check box “Name Change” is marked.
- **Reject Code R0000-900-01** — The return type indicated in the return header must match the return type established with the IRS for the EIN.
- **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 1120 return type. This should be done at the IRS website. Review publication 3112 for details.
- **Reject Code R0000-932-01** — If “Amended Return” or (Superseded for 1120/1120S) check box is not selected, then Taxpayer TIN in the return header must not be the same as a TIN of a previously accepted paper return for the return type and tax period indicated in the tax return.
- **Reject Code R0000-933-01** — If “Amended Return” or (Superseded for 1120/1120S) check box is not selected, then Taxpayer TIN in the return header must not be the same as a TIN of a previously accepted electronic return for the return type and tax period indicated in the tax return.

SPECIAL TYPES OF RETURNS

This section covers 52-53-week year returns and inactive returns. Both types of returns can be e-filed using Drake Tax.

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 the MMDDYYYY format, as shown in the example in Figure 2-12 on page 48.
2. Mark the **52-53-week tax year** box.

If not calendar year	
Fiscal year begins.....	09-29-2018
Fiscal year ends.....	09-27-2019
<input checked="" type="checkbox"/> 52-53 week tax year	
52-53 or Short Year.....	Year

Figure 2-12: In this example, the fiscal year begins 09/29/2018 and ends 09/27/2019 (the Friday closest to the end of April), giving the entity a 53-week year for 2019.

NOTE

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

3. Click the **Year** link to open the **Short-Year Election** screen (Figure 2-13).

52-53-Week Tax Year Election	
1 Month in which new 52-53-week tax year ends.....	<input type="button"/>
2 The day of the week on which the tax year always ends.....	<input type="button"/>
3 The date the tax year ends.....	<input type="button"/>

Figure 2-13: 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 ending** field on screen 1).

NOTE

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

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 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.
2. Under **Items to Print**, mark the **Print inactive return** box.

When the return is calculated, the program displays the words “Inactive Return” on the main form of the return (specifically, 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.

IMPORTANT

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 *2018 Drake Tax User's Manual*.

FOREIGN TAB

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

Also available on the **Foreign** tab are the screens used in completing Form 8938, Statement of Specified Foreign Financial Assets, Form 5472, 25% Foreign-Owned U.S. Corporation, and Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations.

For more on completing FinCEN Form 114, see “Foreign Financial Accounts” in Chapter 5 of the *2018 Drake Tax User's Manual*.

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 sup-

port or explain an entry in the return. In either case, a PDF must be available to be attached to the return in order to be e-filed with the return.

Attach files through the **PDF Attachments** screen, accessible from the **Electronic Filing** section on 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 file to be attached
2. Informing the program that a PDF file will be sent with the return
3. Attaching the PDF file 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 as a PDF document.

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 files if you have a PDF printer (such as Adobe Reader) installed.

Adding PDF Files

To indicate in the software that a PDF file will be sent with the return:

1. Open the return in Drake Tax.
2. From the **Data Entry Menu**, click **PDF Attachments**, accessible from the **Electronic Filing** section of the **General** tab (or type PDF in the selector field and press ENTER).
3. Fill out the columns on the screen. See Table 2-3 for examples.

Table 2-3: PDF Attachment Window Columns

Reference Source	Description	File Name
Information in this column 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.	Distinctive, easily recognizable file name, followed by ".PDF"
Examples: - Title of house on Oak St. - Appraisal of Lot 1234	Examples: - Pub. 123, worksheet XX - Instructions for IRS Form XYZ	Examples: - TitleHouseOakSt.PDF - AppraisalLot1234.PDF

4. Exit the **PDF** screen.

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:

1. From the return, click **View**. If anything was entered on the **PDF** screen, there will be three PDF-related items in the **View/Print** window:
 - A red **MESSAGES** alert (see item #1 in Figure 2-14 on page 51)
 - An “EF PDF” worksheet that lists all items entered on the **PDF** screen (item #1 in Figure 2-14 on page 51)
 - An **Attach PDF** button on the toolbar (item #2 in Figure 2-14 on page 51)

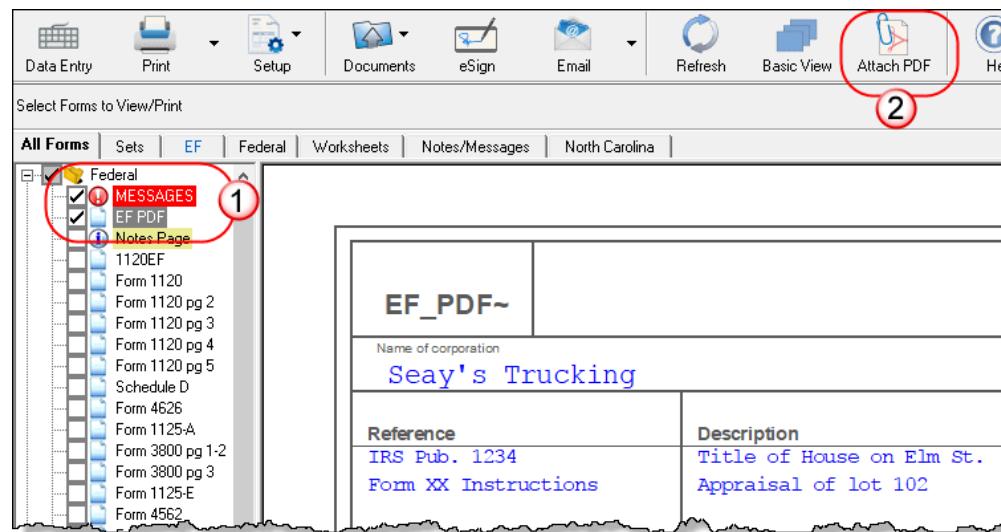


Figure 2-14: The red **MESSAGES** file and the **Attach PDF** button

2. Click the **MESSAGES** file to view the EF Message which provides information on how to attach the required documents to the return.
3. Click the **Attach PDF** button in the toolbar at the top of the window. The **EF PDF Attachments** window (Figure 2-15) displays the information entered on the **PDF Attachments** window in data entry. A red circle with an X means the document has not yet been attached; a green circle with a check mark indicates an attached docu-

ment.

Required PDF Attachments		
The list below contains PDF Attachments that are required for electronic filing. Select an item from the list and click 'Browse' to locate the associated PDF file. Items with a green check mark already have the PDF file. Items with a red 'X' are missing the required PDF file.		
Reference	Description	Required PDF FileName
Form 8283	Contemporaneous Acknowledgment	CONTEMPORANEOUSACKOWLEDG...
Form 1120, box g	Form 2553, List of Officers	2553OFFICERS.PDF
Form instructions	Title of house on Oak St.	TITLEOAKSTREET.PDF

View Delete Browse Exit

Figure 2-15: The **EF PDF Attachments** window

4. Click the row of a document with a red circled X you wish to attach it to the return.
5. Click **Browse**.
6. Find the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name). The X is replaced with a check mark.

Repeat for all documents with an X. When all documents have been attached to a completed return, recalculate the return to make sure all EF messages have been cleared. If so, the return is ready to be e-filed.

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 material item.

Form 3115, Application for Change in Accounting Method, is eligible for e-file, but an additional copy of the form must be mailed to the IRS national office unless the Appendix of Rev. Proc. 2011-14 of other published guidance requires the copy to be filed with the IRS office in Ogden, UT. (See IRS instructions for details.)

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

ACCESSING SCREENS FOR CHANGING ACCOUNTING METHOD

Several screens may be required to complete Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the second **Other Forms** tab of the **Data Entry Menu** (Figure 2-16).

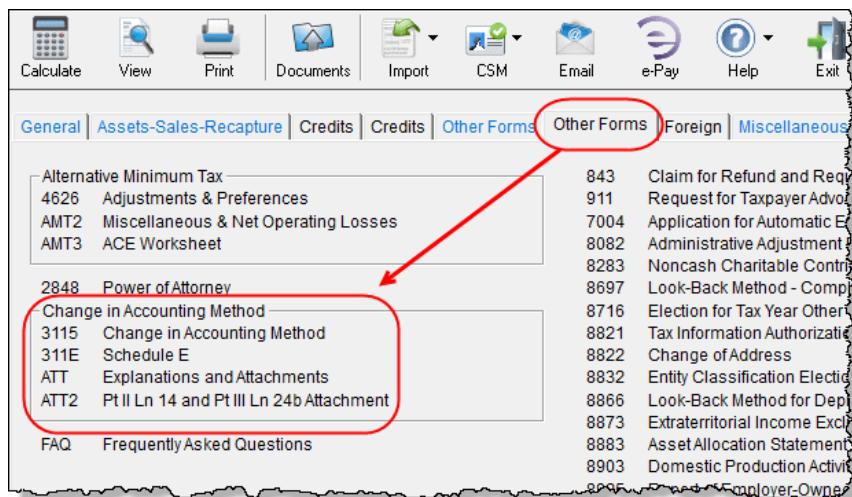


Figure 2-16: Screens for Form 3115, Application for Change in Accounting Method

The screens accessible from the **Change in Accounting Method** section include:

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

Multi-form Codes

All **3115** and related screens contain a **Multi-form code** text box (shown in Figure 2-17) 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 multi-form code numbers to indicate with which instance of Form 3115 the **311E** or **ATT** screen should be associated.

NOTE

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

FORM 3115 SCREENS

When you open the **3115** screen from the **Data Entry Menu**, the program displays the first of five **3115** screens. These five screens are:

- **Part I** (Form 3115, Part I)
- **Part II** (Form 3115, Part II)
- **Parts III, IV** (Form 3115, Parts III and IV)
- **A, B, C** (Form 3115, Schedules A, B, and C)

- **D - Parts I, II** (Form 3115, Schedule D, Parts I and II)
- **D - Part III** (Form 3115, Schedule D, Part III)

As shown in Figure 2-17, you can access these **3115** screens by clicking a link at the top of any of the **3115** screens.

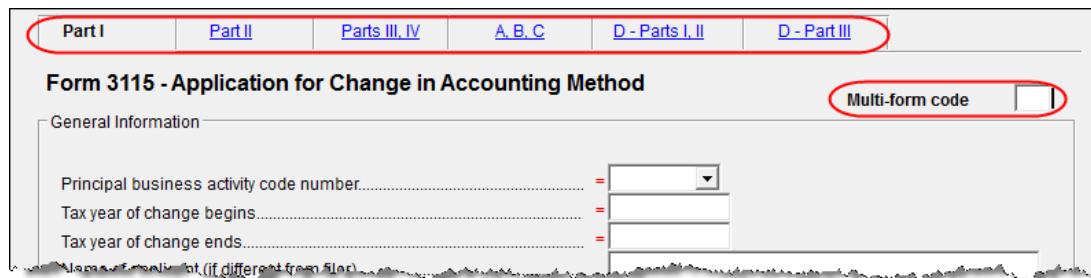


Figure 2-17: Tab links on **3115** screen

For details on how to file Form 3115, see IRS Revenue Procedure 2015-13.

NOTE

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.

TIP

See **Screen Help** (accessible from the **3115** screen toolbar, from the right-click menu, or by pressing **CTRL+ALT+?**) to access links to view the 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 in View/Print mode.

EF Messages for Form 3115 provide information about required attachments (including PDF attachments) that are missing from the return. Some messages list all statements required for a particular section but do not indicate which statements, specifically, are missing. To better understand which attachments are still required, compare the **ATT** screen and the “EF PDF” page to the list on the EF Message.

NOTE

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

IMPORTING TRIAL BALANCE INFORMATION

Drake Tax's trial balance import feature allows data to be imported into an 1120 return from a trial balance worksheet. The trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Reduces data entry errors by automatically importing data to the correct fields

- Allows preparers to merge basic accounting functions with tax preparation

NOTE

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

PREPARING TO USE TRIAL BALANCE IMPORT

The trial balance import function can be used only on returns that were created in Drake 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 2018 or update an existing client file from the prior year. Then create a trial balance worksheet. (See "Opening a Template" on page 57.)

Then 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**.

- In certain setups, you may receive a Security Warning and be asked to "Enable Content." This is another message about macros. If you wish to read more, click the link; otherwise, click **Enable Content**.

- **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**. (See second red circle in Figure 2-18.)

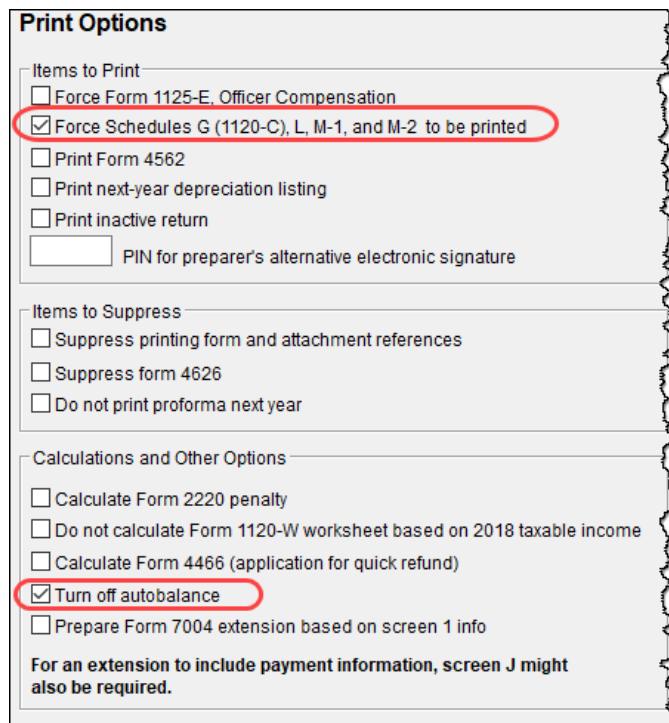


Figure 2-18: “Forcing” Schedule L and disabling autobalance

- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the corporation does not meet the filing requirement. If this is the case, you have to override the default setting in order to have the amounts displayed on Schedule L. To force the Schedule L amounts to be printed, go to the PRNT screen and select the applicable check box. (See first red circle in Figure 2-18.)
- **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 or sales** 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, as shown in Figure 2-19.

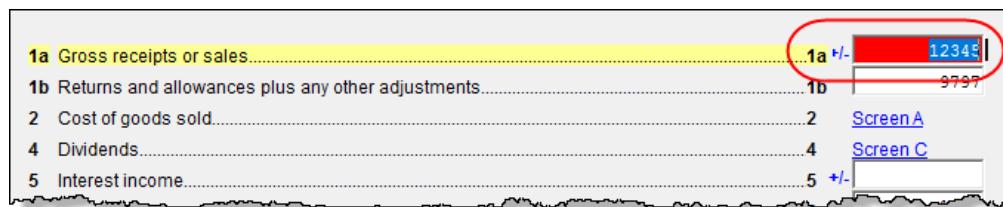


Figure 2-19: Example of an “unnecessary” detail worksheet

Remove (press CTRL+D) unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 58 for more information on using detail worksheets in the trial balance.

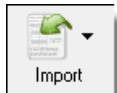
PREPARING FINANCIAL DATA FOR IMPORT

To prepare the financial data for importation 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 Excel 2007 and 2010, 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 Drake Tax '18 program.

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

NOTE If saving a trial balance to a different location, make a note of where you are storing 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 2-4.

Table 2-4: Trial Balance Template Columns

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake to which the debit or credit amount is imported
Form, Page, Sch, and/or line	Location of the amount on the printed return
Other Information	Additional details for preparers; see "Details for Preparers" on page 61.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; and a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (Figure 2-20; see also Figure 2-23 on page 59).

The image shows a trial balance worksheet for 'Wages (Detail Below)'. The table has three columns: Debit, Credit, and Balance. The 'Debit' column contains entries for 'Officer compensation', 'Salaries and wages', and 'Waste removal'. The 'Credit' column contains a single entry for 'Net Income (Loss) = Schedule M-1, line 1' with a value of '\$301,056'. The 'Balance' column shows '\$0' for the debit side and '\$971,304' for the credit side. Below the table, a row labeled 'Totals' shows '\$971,304' in the debit column and '\$971,301' in the credit column. A yellow box at the bottom right contains the text 'OUT OF BALANCE?' with a value of '\$3'. Red circles numbered 1, 2, and 3 are overlaid on the table and the balance row to indicate specific points of interest.

Wages (Detail Below)		
Officer compensation	\$0	
Salaries and wages	\$0	
Waste removal	\$0	
Net Income (Loss) = Schedule M-1, line 1	\$301,056	
Totals	\$971,304	\$971,301
		3 OUT OF BALANCE? \$3

Figure 2-20: 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 61.

Direct Entry

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

Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 2-21 on page 58). (Buttons do not work if macros are disabled; see “Opening a Template” on page 57.)

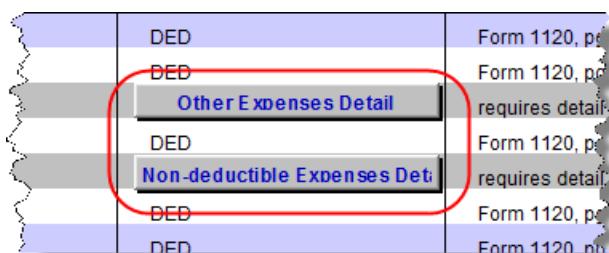


Figure 2-21: Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 2-22 shows an example of the “Other Income” worksheet.

A	B	C	D	E	G	J
1		Statement Required - Other Income				
2		Form 1120, page 1, line 11				
3						
4						
5						
6		Line Description	Amount	Import to:		
7	E7	1 Amount of credit for tax on fuels (Form 4136)	\$0	INC, line 10		
8	E8	2 Interest income on receivables	\$0	INC, line 10		
9	E9	4 Recoveries of bad debts deducted in earlier years	\$0	INC, line 10		
10	E10	5 Section 481 adjustments	\$0	INC, line 10		
11	E11	6 State tax refund (cash basis)	\$0	INC, line 10		
12	E12	7 Taxable income from insurance proceeds	\$0	INC, line 10		
13		8 Other	\$0	Other Income Detail		
14						
15						
16						
17		Total other income	\$0			
18						
19						
20						
21						
22		Click to return to TB	2			
23						
24						
39						
40						
41						
42						
		1				
		Corp TB	Other Income	+		

Figure 2-22: Trial balance worksheet for “Other Income”

To return to the previous worksheet, click the **Corp TB** tab (labeled “1” in Figure 2-22 on page 59), or the **Click to return to TB** button above the worksheet tabs (labeled “2” in Figure 2-22 on page 59). Note that a detail tab (the “Other Income Detail” button labeled “3” in Figure 2-22 on page 59) might include one or more detail worksheets.

NOTE

Do not create detail worksheets in data entry of Drake Tax if the trial balance worksheet does not provide an equivalent detail worksheet; otherwise, 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 2-23).

Wages (Detail Below)		
Officer compensation	\$0	
Salaries and wages	\$0	
Waste removal	\$0	
Net Income (Loss) = Schedule M-1, line 1	\$301,056	
Totals	\$971,304	\$971,301
	OUT OF BALANCE?	\$3

Figure 2-23: Out-of-balance amount is highlighted if columns are out of balance.

In addition to credit and debit totals, the main trial balance worksheet displays 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 Excel 2007 and 2010, 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 Drake Tax '18 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 61.

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

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened. Click **Next**.
3. Enter or select the trial balance file to be imported. Use the **Browse** feature if necessary. By default, each trial balance file is an Excel (.xls) file displaying the client's name and ending in “TB” for trial balance, as shown in the example in Figure 2-24. (See “File Location” on page 57.)

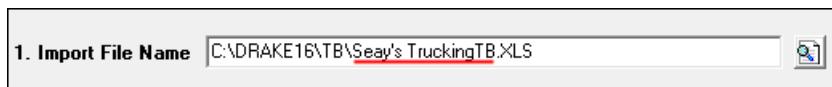


Figure 2-24: Selected file to import

4. Select the **Trial Balance Additional Import Options**. (See “Additional Import Options” following this procedure.)
5. Click **Next** and wait for the import to be completed.
6. 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.

Additional Import Options

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

Buildings & other depreciable assets	Accumulated depreciation
Goodwill & other intangible assets	Land
Accumulated amortization	Cost of goods sold (COGS) depreciation

SPECIAL CONDITIONS

Some trial balance items cannot be entered into the trial balance worksheet and must be typed directly into Drake Tax data entry. Other items should be entered into the worksheet for balance purposes but are not carried 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 2-25 go to Schedule L, line 1, column d in the program and are shown on page 5, line 1, column d of the 1120 return.

Debit	Credit	Import to (screen, line):	Form, Page, Sch and/or line
\$12,345		L, line 1, col d	Form 1120, Sch L, line 1, col d
\$2,121		L, line 2a, col c	Form 1120, Sch L, line 2a, col c
	\$4,444	L, line 2b, col c	Form 1120, Sch L, line 2b, col c
\$78,987		A, line 1	for purchases import purposes only
\$76,767		A, line 7	1125, line A 7

Figure 2-25: Trial balance worksheet indicates where an amount will go in Drake Tax and on the return

Other Info Column

The “Other Information” column in the trial balance worksheet indicates special conditions and additional information regarding certain rows. Table 2-5 describes the most common notes in this column.

Table 2-5: “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 import	Information cannot be imported and must be entered on the appropriate screen in Drake Tax. Screen is specified in “Form, Page, Sch...” column to the left of “Other Information.”
optional	Amount is optional; not required for import, but could require direct entry in the software.
(enter deficit as negative)	Some deficits must be entered as negative numbers.

Table 2-5: "Other Information" Column Notes

Note	Description
import includes the calculated change in inventory	Used for "total purchases;" when calculating cost of goods sold (COGS) in the return, the program takes the change in inventory into account for the Schedule A calculation.
[Form or Schedule] may be required	Non-financial information (such as names of officers for a Schedule E) must be completed in Drake, in addition to the financial data entered in the worksheet.

All "does not import" notes are accompanied by further instructions in the column to the left of the "Other Information" column, as shown in Figure 2-26 on page 62.

SCH2 Detail

Typically, a balance sheet subsidiary schedule (**SCH2** detail screen for Schedule L) is required for an item marked "does not import" on the trial balance worksheet (Figure 2-26 on page 62).

	B	C	D	E	G	H	J	K	L	M	N
1											
2											
3											
4											
5	Account Title		Debit	Credit		Import to (screen, line):		Form, Page, Sch and/or line		Other Information	
6											
7											
8	Cash		\$12,345			L, line 1, col d		Form 1120, Sch L, line 1, col d			
9	Trade and accounts receivable		\$2,121			L, line 2a, col c		Form 1120, Sch L, line 2a, col c			
10	Allowance for bad debts			\$4,444		L, line 2b, col c		Form 1120, Sch L, line 2b, col c			
11	Beginning inventory		\$78,987			A, line 1		for purchases import purposes only	not included in totals		
12	Ending inventory		\$76,767			A, line 7		1125-A, line 7			
13	U.S. government securities		\$0			L, line 4, col d		Form 1120, Sch L, line 4, col d			
14	Tax-exempt securities		\$0			L, line 5, col d		Form 1120, Sch L, line 5, col d			
15	Other current assets		\$777			Other Current Assets Detail		SCH2 detail required in Drake	does not import		
16	Loans to shareholders		\$0			L, line 7, col d		Form 1120, Sch L, line 7, col d			
17	Mortgage and real estate loans		\$0			L, line 8, col d		Form 1120, Sch L, line 8, col d			
18	Other investments		\$888			Other Investments Detail		SCH2 detail required in Drake	does not import		
19	Buildings and other depreciable assets		\$0			L, line 10a, col c		Form 1120, Sch L, line 10a, col c	optional		
20	Accumulated depreciation			\$10		L, line 10b, col c		Form 1120, Sch L, line 10b, col c	optional		
21	Depletable assets		\$0			L, line 11a, col c		Form 1120, Sch L, line 11a, col c			

Figure 2-26: **SCH2** screen required for "does not import" items

To complete an **SCH2** detail screen in data entry of the tax program:

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

NOTE

Alternately, open screen **L** and click the **SCH2 Screen** link for the line you wish to enter.

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, the 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.

Depreciation

On an 1120 return, total depreciation consists of COGS depreciation, which is reported on Form 1125-A, Cost of Goods Sold, and any remaining depreciation, which is reported on page 1 of the return. For trial balance purposes, enter depreciation amounts directly into the appropriate fields on the trial balance worksheet.

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

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.

“EF NOTICE” PAGE

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

This is a Drake-generated form that serves the same purpose as Form 9325: an acknowledgment that a return has been transmitted through Drake Software 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 a check mark indicating 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.

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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.

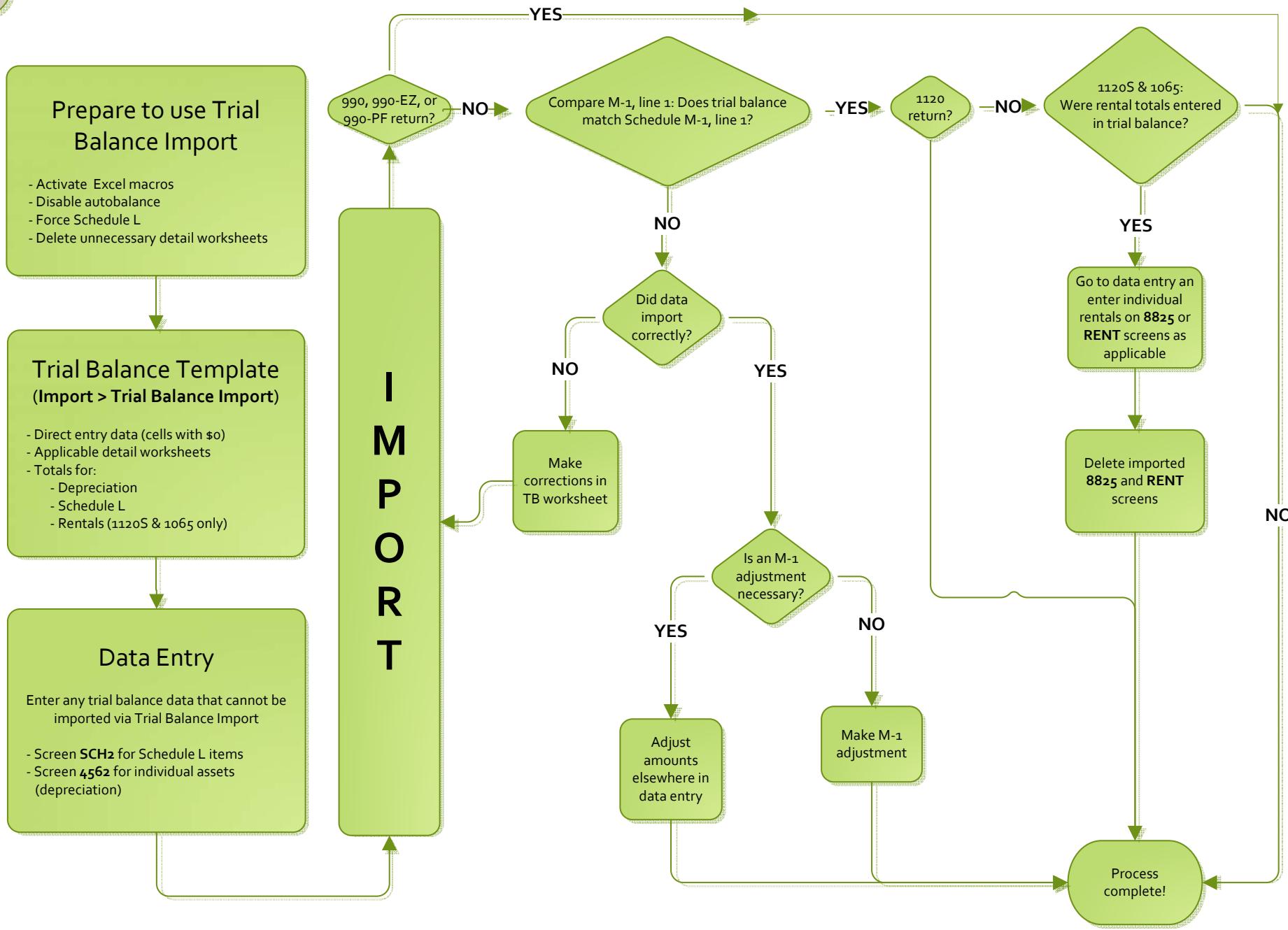
Drake Tax's specially designed trial balance template and importing function has the following benefits:

- 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

DrakeSoftware



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