SUPPLEMENT:

FIDUCIARIES

(1041)
Drake Tax
User’s Manual
Tax Year 2018
Supplement: Fiduciaries
(1041)

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Table of Contents

What’s New in Drake Tax for 2018 ............................................................... 7
IRS Changes for 2018 .............................................................................. 7
Fiduciary (1041) Package ................................................................. 8
Set Viewing Order .............................................................................. 8
Viewing Schedules K-1 ................................................................. 8
Return Preparation: Updating a Prior-Year Return ...................... 8
About the Grantor Check Box ............................................................ 9
Header Information ............................................................................ 9
Estate, Trust and Fiduciary Information ........................................ 9
Name Control ...................................................................................... 10
Tax Year .............................................................................................. 10
Boxes A through G ............................................................................. 10
Types of Entities ................................................................................. 11
Filing Security Screen ....................................................................... 12
Interest and Dividends ..................................................................... 12
Business Income or Loss (Schedule C) ........................................... 12
Qualified Business Income (QBI) Deductions .............................. 12
Reporting Qualified Business Income ........................................... 13
QBI Worksheets and Calculations .................................................. 14
Denoting Specified Service Trades or Businesses ....................... 14
Capital Gains and Losses (Schedule D) ........................................... 15
Rents, Royalties, etc. (Schedule E) .................................................... 17
Income from Pass-Through Entities (Schedule K-1) ................. 17
Farm Income or Loss (Schedule F) .................................................... 18
Gain or Loss From Sale of Assets (Form 4797) ......................... 18
Other Income ..................................................................................... 19
Deductions ......................................................................................... 20
Deduction Allocation ....................................................................... 20
Interest Deductions ......................................................................... 20
Taxes .................................................................................................... 21
Fiduciary Fees ................................................................................... 21
Charitable Deductions (Schedule A) ............................................... 21
Attorney, Accountant, and Return Preparer Fees ...................... 21
Income Distribution Deduction ....................................................... 22
K-1 Export .......................................................................................... 25
Estate Tax Deduction ....................................................................... 26
Exemption .......................................................................................... 26
Tax and Payments ............................................................................. 26
Tax Computation (Schedule G) ....................................................... 27
Credits ................................................................................................ 27
Foreign Tax Credit ............................................................................ 27
General Business Credits ................................................................ 28
Carrybacks and Carryforwards ....................................................... 28
Prior-Year Minimum Tax ............................................................... 29
Payments .................................................................................. 30
Estimated Payments and Amount Applied from Prior Year ........... 30
Estimated Tax Penalty ................................................................. 32
Other Information ...................................................................... 33
Tax-Exempt Income ................................................................. 33
Foreign Bank Information .......................................................... 34
Seller-Provided Financing ......................................................... 34
Estate Open Two+ Years ............................................................. 35
Elections .................................................................................... 35
Safe Harbor Elections ............................................................... 36
The PDF Attachment Process ..................................................... 36
Form 3115, Application for Change in Accounting Method .......... 39
Accessing Screens for Changing Accounting Method ................. 39
Form 3115 Screens ................................................................. 40
Other Screens For Completing Form 1041 .................................. 41
Credits ..................................................................................... 42
Taxes ....................................................................................... 43
Other Screens .......................................................................... 44
Miscellaneous Codes for Tracking .............................................. 45
Form 1041-A ............................................................................ 45
Form 5227 ................................................................................ 45
Signing the Return .................................................................. 46
Form 8879-F ........................................................................... 46
Amending a Return ................................................................ 46
Filing an Extension .................................................................. 47
State-specific Information ......................................................... 47
Making Changes on the Fly ........................................................ 48
Suppress or Force Printing ......................................................... 48
Overriding Other Printing Options ............................................ 49
Listing a Different Firm, Preparer, or ERO on a Return ............... 50
Electronic Filing ..................................................................... 50
“EF Notice” Page .................................................................... 50
Electronic Funds Withdrawal (Direct Debit) ............................... 51

Index........................................................................................................ liii
Fiduciary Returns (1041)

**The basics of data entry on a fiduciary (1041) return are the same as for the 1040. 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 2018**

Drake Tax programs its software according 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 1041.

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 SecureFilePro and Drake Accounting.

The following changes, additions, and enhancements were made to the 1041 package:

**IRS Changes for 2018**

- For tax years beginning after 2017, estates and trusts may be entitled to a deduction of up to 20 percent of their Qualified Business Income (QBI) from a trade or business, including income from a pass-through entity, plus 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. The deduction is subject to multiple limitations such as the type of trade or business, estate’s or trust’s taxable income, the amount of W-2 wages paid with respect to the trade or business, and the unadjusted basis immediately after acquisition of qualified property held by the trade or business. The deduction can be taken in addition to the standard or itemized deductions. See “Qualified Business Income (QBI) Deductions” on page 12 for more details.

- The Domestic Production Activities Deduction (DPAD) has been repealed for tax years beginning after 2017, with limited exceptions.
• The filing addresses for businesses located in certain states have changed. See item C, “Where to Mail Return” on the FAQ screen.

**FIDUCIARY (1041) PACKAGE**

Drake Tax made the following changes to the Fiduciary package for the 2018 filing season:

**SET VIEWING ORDER**

You can now choose the order in which the program sorts, views, and prints beneficiaries’ K-1s. Open the PRNT screen (available from the Miscellaneous tab of the Data Entry Menu), and from the Sort Beneficiaries’ Schedules K-1 by... drop list, select ID Number, First name, Last name, or Percentage.

**VIEWING SCHEDULES K-1**

View the return in View/Print mode and note that all the Schedules K-1 are sorted in the order selected on the PRNT screen (the default order is the order in which they were entered into the program).

Depending on the state, all state K-1s are grouped and sorted in the selected manner. The name of the K-1 owner is included in the description of the federal and most state K-1s.

For those who print their K-1 forms from the Sets tab in View/Print mode (figure at right), all generated federal and state K-1 schedules, forms, and worksheets for each beneficiary are in the appropriate folder, making it easier to print everything needed for each beneficiary.

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

**RETURN PREPARATION: UPDATING A PRIOR-YEAR RETURN**

If you prepared the tax return last year, you must first update it to the 2018 package. Prior-year returns can be updated in three ways:

• A single return (updated one at a time) using Last Year Data > Update Clients 2017 to 2018 (recommended)

• When you open the 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)
Drake Tax recommends using the first option (updating returns individually) to ensure that you update only those items in a return that you want updated.

**NOTE**

When you update a 1041 return that was marked as “Final return” the previous year, the program informs you that the return was marked as such before prompting you to proceed.

**ABOUT THE GRANTOR CHECK BOX**

There is a **Grantor** check box on screens 8949, DIV, INT, C, E, and F (Figure 2-1).

![Figure 2-1: Grantor check box on screen 8949](image)

If **Partial Grantor Trust** has been selected on screen 1, marking the **Grantor** check box makes any information entered on screens C, E, F, 8949, DIV, or INT a part of the Grantor Statement. If **Full Grantor Trust** has been selected on screen 1, marking this box on screens C, E, F, 8949, DIV, or INT is not necessary.

**NOTE**

Separate Schedules C, E, or F are produced for each grantor.

**HEADER INFORMATION**

Screen 1 contains fields for the general information printed in the top section of page 1 of Form 1041.

**ESTATE, TRUST AND FIDUCIARY INFORMATION**

On screen 1, enter the name of the estate or trust and the name, title, and address of the fiduciary (individual or business) handling the estate or trust.
NAME CONTROL

For information on entering a name control, see the field help for the Entity name control box.

TAX YEAR

The program uses the calendar year as the default period for all fiduciary returns; no date entries are required on screen 1 for a December 31 tax year-end. If the return uses a fiscal year (where the year begins in the current year and ends in the next), specify the beginning and ending dates in the Fiscal begin and Fiscal end fields on screen 1.

NOTE

The program adjusts calculations for depreciation, gains, and losses on sales of assets based on the tax year used.

BOXES A THROUGH G

Enter most information for boxes A through G (top of Form 1041) on screen 1. Note that box B (“Number of Schedules K-1 attached”) is completed automatically based on the number of K1 screens completed in the program. Other boxes are:

- **Box A** — Type of entity
- **Box C** — Employer identification number (EIN)
- **Box D** — Date entity created
- **Box E** — Check boxes for nonexempt charitable and split-interest trusts
- **Box F** — Check boxes to indicate if a return is an initial, a final, or amended return, if an amended return had a net operating loss carryback, and to indicate a name change for the trust change in fiduciary, or a name change or an address for the fiduciary
- **Box G** — Check box to indicate if a section 645 election was made and a field to enter EIN of the trust
NOTE

If the estate or trust was closed or terminated during the year, enter the date of closure or termination in the Date closed/terminated field in the Other Information section of screen 1.

TYPES OF ENTITIES

Indicate the type of entity in the General information section of screen 1. If the return is for a decedent’s estate, mark the Decedent’s estate check box and (required) enter the decedent’s name, SSN, and date of death. For a trust, mark the type of trust. For a bankruptcy estate, see “About Bankruptcy Estates” on page 11. For a grantor-type trust, see “About Grantor-Type Trusts,” following. If the return is for a Pooled Income Fund, mark that box. (For more information, see the field help for the Pooled income fund check box.)

TIP

Review the field helps (click in a check box and press F1) for the types of entities for more information.

NOTE

If the entity is a trust and must distribute all of its income during the year, indicate that by marking the Distribute all income check box in the Other Information section on the right side of screen 1.

About Grantor-Type Trusts

If the entity is a grantor-type trust, make a selection from the Grantor Type Trust check boxes on screen 1, and then click the GRS link to open the GRS screen. (Screen GRS is also accessible from the General tab of the Data Entry Menu.)

NOTES

If you select the Full Grantor check box from the Grantor Type Trust section on screen 1, pages 1 and 2 of Form 1041 will not contain any amounts.

If you select Partial Grantor, you must also indicate what the other part of the trust is: Simple, Complex, Qualified disability, or ESBT.

For partial grantors: The income and expenses entered on certain data entry screens — such as screen C (for business income), screen DIV (for dividend income), screen INT (for interest income), screen E (for real estate income and expense, or screen F (for farm income and expense)—flow to the Grantor Statement (“GRANTOR” in View/Print mode) if you mark the Grantor check box on those screens. Full grantors do not need to mark the Grantor boxes as this information flows automatically to the Grantor Statement. It is not necessary to enter all the income and expense amounts on the GRS screen; you must, however, enter the grantor’s name, address, and tax ID number on the GRS screen.

Consult the screen help (press CTRL+ALT+?) and field-level helps (click in a field and press F1) for more information on completing screen GRS.

About Bankruptcy Estates

If the 1041 is for a bankruptcy estate, mark one of the Bankruptcy estate check boxes (for Chapter 7 or Chapter 11) and then click the link to the BR screen. Enter the infor-
mation on taxes, payments, and penalty. Print the return, attach a copy of the taxpayer’s Form 1040, and mail it to the IRS.

**NOTE** The bankruptcy estate return cannot be e-filed.

**FILING SECURITY SCREEN**

The **Filing Security Information** screen (SEC) in Drake Tax is part of an ongoing IRS initiative to protect the business and tax return preparers from data theft and tax fraud. The information entered on the SEC screen is transmitted when the tax return is e-filed. Completing this screen for federal returns is strictly optional for 2018; however, certain states will begin requiring this information in the near future.

*Screen Code: SEC* The SEC screen is accessible through a link on screen 1 or the SEC link of the General tab of the Data Entry Menu.

**INTEREST AND DIVIDENDS**

Use screen **INT** to enter information from Form 1099-INT, and use screen **DIV** to enter information from Form 1099-DIV. The INT and DIV screens in the 1041 package are similar to those in the 1040 package. For information on entering amounts as percentages and entering state-specific information, see the 2018 Drake Tax User’s Manual.

Access the INT and DIV screens from the General or Income tabs of the Data Entry Menu, through Interest Income and Dividend Income links on screen 3, or by typing INT or DIV into the selector field and pressing ENTER.

**BUSINESS INCOME OR LOSS (SCHEDULE C)**

If the estate or trust operated a business, use screen **C** (Schedule C) to report income and expenses in addition to the estate’s or trust’s share of depreciation, depletion, and amortization (generally, depreciation and amortization are entered on screen 4562), and any interest paid or incurred on indebtedness allocable to a trade or business. Net income or loss from Schedule C is shown on line 3 (“Business income or loss”) of Form 1041.

Screen C in the 1041 package is identical to screen C in the 1040 package, with the exception of the **Grantor** check box.

For more information on completing Schedule C and entering vehicle information, see the “Self-Employment Income (Schedule C)” section and the “Auto Expenses” section in Chapter 5, “Return Preparation,” of the 2018 Drake Tax User’s Manual.

**QUALIFIED BUSINESS INCOME (QBI) DEDUCTIONS**

*New for 2018:* The TCJA added Code Sec. 199A, “Qualified Business Income,” under which trusts and estates that have qualified business income (QBI) from any trade or business, (not W-2 wages), including income from a pass-through entity, might be allowed to deduct up to 20% of that income from their taxable income.
REPORTING QUALIFIED BUSINESS INCOME

For entities with Qualified Business Income, Drake Tax now includes a new Qualified Business Income (QBI) Deduction section on screens K1P, K1S, K1F, C, F, and Schedule E (screens E). In addition, Drake Tax added screen FQBI, to allow you to override the program’s QBI calculations, screen KQBI, for overriding QBI allocations, and screen K199, for listing multiple trades or businesses that was passed income through to the estate or trust on a Schedule K-1.

For instance, for a partnership reporting qualified Business Income to an estate or trust, go to screen K1P and click the 1065 13-20 tab. The new Qualified Business Income (QBI) Deduction section (figure at left) is in the lower right corner of the screen.

From the estate’s Schedule K-1 received from the partnership, find the Section 199A codes and amounts in box 20 and enter that amount on the proper line of screen K1P. If, in our example, the QBI was “Section 199A W-2 wages,” the code in box 20 would be “AA.” Enter the amount from box 20 on the “20 AA” line of the K1P screen (#1 in the figure above).

If the taxpayer has QBI information from more than one source to report, click the K199 link (#2 in the figure above) to open the K199 screen. (This screen is also available from the Income tab of the Data Entry Menu, or by entering K199 in the selector field and pressing ENTER.)

On screen K199 (Figure 2-2), Select from the For box (#4 in Figure 2-2) the type of K-1 from which this information is derived. From the list on the left (#5), determine on which line to enter the QBI data, then go across and enter the income on the appropriate field. For our example, for Section 199A W-2 wages allocated for this activity, the code “AA” is the middle line (item #5), so that is where we would enter the amount (#6).

Figure 2-2: Screen K199 for reporting multiple QBI income sources
**NOTE**

For Schedules K-1 from fiduciaries, there is only one code in the K1F Box 14 code column: “I.”

If you have a third business, then press PAGE DOWN for a second K199 screen.

For QBI from Schedule E income, open screen E and complete the **Qualified Business Income (QBI) Deduction** section in the lower right corner. Note that **This activity is a trade or business** drop list is a required field. If screen E is used, you must select an answer from the drop list. For more on Schedule E, go to “Rents, Royalties, etc. (Schedule E)” on page 17.

**QBI Worksheets and Calculations**

Drake Tax produces several important worksheets, available in the View/Print mode forms tree, that display QBI, calculations, and distributions:

- The Qualified Business Income Allocation worksheet (listed as “QBI allocation” in the forms tree) lists each trade or business in the estate or trust and allocates the total distributions proportionally among them. (You can override the calculations on screen FQBI; be sure to read the field helps on that screen.) The worksheet displays the breakdown of distributable net income from line 7 of Schedule B, the total distributions from line 11 of Schedule B, and the distribution ratio on which Drake Tax bases its calculations. In the lower half of the page is the results of the ratio calculation: the total, the allocation per beneficiary, and the amount remaining with the trust or estate.

- The Qualified Business Income Deduction worksheet for the estate or trust (“Wks QBI”) has the displays the names of trades or businesses supplying the income, the amount of qualified business income (or loss) supplied, and other pertinent amounts.

- The Qualified Business Income Deduction worksheet for the beneficiaries (listed as the “K-1 Wks QBI” in the beneficiaries’ “Schedule K-1” folders) displays the same amounts as the “Wks QBI worksheet (above) but broken down by beneficiary. The program allocates the QBI from each trade or business activity among the beneficiaries based on the values in the Fed% field on each beneficiary’s screen K1. Use screen KQBI to override the allocations to beneficiaries.

- Other worksheets available in View/Print mode include the 2018 Qualified Business Income Deductions Complex Worksheet (“QBI Complex Wks”), the 2018 Qualified Business Income Schedule C (“QBI Schedule C”), and the QBI Explanation Worksheet (“QBI Explanation”).

**Denoting Specified Service Trades or Businesses**

If the entity (partnership, S corporation, or fiduciary) supplying QBI for this return is a Specified Service Trade or Business (SSTB), the estate or trust could be subject to income limitations; you must, therefore, mark the **Treat as a specified service business** check box on the income source screen (K1P, K1S, K1F) or on screen K199 (for multiple businesses), or the **This activity is a trade or business** check box on screen E.
A specified service trade or business is any trade or business providing services in the fields of:

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

Other trades or businesses could be considered trades or businesses for QBI purposes. See section 199A, Form 1041 Instructions, and Pub.535, Business Expenses, for more information.

### CAPITAL GAINS AND LOSSES (SCHEDULE D)

The amount on line 4, “Capital gain or (loss),” flows from Schedule D, line 19, column 3 (for gains) or line 20 (for losses). Entries on several screens, including screens 8949, D2, 2439, K1P, K1F, K1S, DIV, 6252 4797, and 4562 are used to calculate these lines of Schedule D.

### NOTE

Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, reports individual transaction information and contains cost basis fields for brokers who are required to supply such information. Enter 1099-B data on screen 8949.

### Screen codes

- 8949
- D2

Screen 8949 has fields for Form 8949, Schedule D, and Form 1099-B data. Following are some guidelines for data entry on this screen, first for 1099-B information, and then for 8949—specific information.

- **Applicable check box...** — Indicate by selecting an option from the drop list if the basis of the asset was reported to the IRS or if the transaction was not reported on Form 1099-B. (Selection 1 is the default.)
- **Description** — Enter description of capital gain or loss item. You can use stock ticker symbols or abbreviations (limit 32 characters) to describe the property as long as they are based on the descriptions of the property as shown on Forms 1099-B or 1099-S (or substitute statement).
- **EIN (QOF)** — Enter the taxpayer’s ID of the Qualified Opportunity Fund that matches this transaction. Do not use this field if a QOF was not involved.
- **Date acquired** — Enter the date acquired as an eight-digit number using the MMDDYYYY format. This date is used to determine whether the sale is short term or long term. Type in VARIOUS or INHERIT or Inh2010, as applicable. (Only “Various,” “Inherit,” and “Inh2010” are acceptable for e-file.) Select S or L from the Type of gain or loss drop list to have the gain treated as short term or long term.
• **Date sold or disposed** — If a single date does not apply, type **Bankrupt**, **Worthless**, or **Expired**, as applicable. Select **S** or **L** from the Type of gain or loss drop list to have the gain treated as short-term or long-term. (If **Expired** is entered, the return must be paper-filed.)

• **Type of gain or loss** — Select from the drop list to describe the gain or loss as long term or short term. (The program uses **S** (short term) by default when no date in entered in either the Date acquired or Date sold or disposed fields.) If the gain or loss is considered “ordinary,” select the Ordinary checkbox.

• **Proceeds from sale...** — Enter the sale amount. If only the gain amount is available, enter the gain amount and leave the Cost or other basis field blank.

• **Cost or other basis** — Enter the cost or basis. If only the loss amount is available, enter the loss amount and leave the Proceeds from sale... field blank.

• **AMT cost basis** — Enter the cost basis for AMT purposes, if different.

• **Adjustments** — Up to three adjustments per screen is permitted. For each adjustment, select the applicable code from the drop list and enter the amount of adjustment (and AMT adjustment, if applicable) to the gain or loss.

• **AMT** — Several AMT–related fields are included on screen 8949:
  - The Capital Gains and Losses worksheet (D_AMT) uses the same number as the regular Schedule D unless entries are made in the AMT Adjustment to gain or loss and AMT cost basis fields on screen 8949.

• **Federal tax withheld** — Enter the amount of federal tax withheld from the proceeds of a sale.

• **Loss not allowed...** — Mark this box if the loss is not allowed based on the amount in box 1d.

• **Amount of section 1202 gain** — Choose from the drop list the percentage of qualified small business stock that the taxpayer held for five years and then sold:
  - 50% if acquired after 8/10/1993
  - 60% if the small business is in an Empowerment Zone
  - 75% if acquired between 2/18/2009 and 09/27/2010
  - 100% if acquired from 9/28/2010 and 12/31/2013

  (Enter amount of QSB 1202 stock in the second field.)

• **State Info** — Select state, enter ID number, state tax withheld.

• **State Use Only** — Check with your state for required codes.

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**NOTE**

Certain other items – such as the **Accrued Market Discount** field, the **Wash Sale loss disallowed** field, and the line 12 check box – were added to the screen to match Form 1099-B.

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**Screen D2, Carryovers & Other Entries**

Screen **D2** (Schedule D) has fields for short-term gains/losses from other sources, long-term gains/losses from other sources, and loss carryovers from the prior year. If Drake Tax was used for the taxpayer’s return last year, the loss carryover fields are updated automatically.

Lines 1a and 8a of Schedule D on screen **D2** are used to report all short-term and long-term transactions for which basis was reported and for which there are no adjustments:
• In the Proceeds field of line 1a, enter the total sales price, and in the Cost or other basis field, enter the cost or other basis for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments.

• Enter information on the long-term transactions on line 8a.

• An entry on either line 1a or 8a means you will not be making an entry on screen 8949.

If amounts to be entered on screen D2 differ due to AMT, enter them under the AMT if Different column. For information on override fields, press F1 in a selected field.

The fields on lines 17 and 18 are for allocating some or all of the amounts to the beneficiaries. (Calculate the return to have the program fill in the Estates or trust’s column.) Only gains (no losses) can be entered in the Beneficiaries’ column.

Amounts entered affect calculations for lines 17, 18, and 19 on Schedule D. Amounts under the Estate’s or trust’s column also flow to the appropriate line of Schedule B, and amounts under the Estate’s or trust’s column flow to the capital gain calculation.

RENTS, ROYALTIES, ETC. (SCHEDULE E)

Screen code: E

Use screen E, accessible from the Income tab of the Data Entry Menu, to enter most Schedule E information. The Schedule E calculation flows to line 5 of the return.

The E screens in the 1041 package are similar to those in the 1040 package. For more information on completing these screens, see Chapter 5 of the 2018 Drake Tax User’s Manual.

NOTE

For information on using the Qualified Business Income (QBI) Deduction section of screen E, see “Qualified Business Income (QBI) Deductions” on page 12.

INCOME FROM PASS-THROUGH ENTITIES (SCHEDULE K-1)

If the estate or trust received a Schedule K-1 from a pass-through entity, the corresponding lines on Form 1041 should be used to report the interest, dividends, capital gains, etc., from the pass-through entity.

In Drake Tax, use the following screens (available from the Income tab of the Data Entry Menu) to report income from a pass-through entity:

• K1P — For a Schedule K-1 issued by a partnership

• K1F — For a Schedule K-1 issued by another fiduciary, estate, or trust

• K1S — For a Schedule K-1 issued by an S corporation

Enter information directly into one of these K1 screens, or import K-1 information from a pass-through entity into a fiduciary return.

When the return is generated, the amounts from pass-through entities flow to the corresponding lines on Form 1041. Specifically where the amounts flow depends on the type of entity. In most cases, the amounts flow to page 2 of Schedule E, Supplemental Income and Loss, but in certain cases, the amounts flow to Form 4797, Gains and
Losses from Sales of Assets, Form 3800, General Business Credit, or page 1 of Schedule E.

**NOTE**

For information on completing Schedule K-1 (Form 1041) used to report a beneficiary's share of income, deductions, and credits from either the trust or the decedent's estate, see “Schedule K-1” on page 22.

**Form 8960 Entries**

For entering amounts that you want to flow to Form 8960, Net Investment Income Tax, click the **1065 K1 13-20** tab at the top of the **K1P** screen, the **1041 K1 12-14** tab at the top of the **K1F** screen, or the **1120S K1 12-17** tab at the top of the **K1S** screen.

![Form 8960 section of the K1 screens](image)

The fields in this section (Figure 2-3) are adjustment fields that add to or subtract from the calculated amount of Form 8960 by whatever adjusting amount you enter. Drake Tax shows the new calculated amount on Form 8960 and generates a “Form 8960 Attachment” worksheet to show the calculations.

There are also check boxes on screens C, F, and E that relate Form 8960.

**FARM INCOME OR LOSS (SCHEDULE F)**

*Screen code: F*

Use screen F, accessible from the **Income** tab, to enter farm income or loss. Information from screen F flows to line 6 (“Farm income or loss”) of Form 1041. With certain exceptions (such as the **Grantor** check box), screen F in the 1041 package is identical to screen F in the 1040 package. For details on completing screen F, see Chapter 5 of the 2018 Drake Tax User's Manual.

- For information on using the **Qualified Business Income (QBI) Deduction** section of screen F, see “Qualified Business Income (QBI) Deductions” on page 12.
- Do not use screen F to report farm rental income and expenses based on crops or livestock produced by a tenant. Use screen E instead.

**GAIN OR LOSS FROM SALE OF ASSETS (FORM 4797)**

*Screen code: F*

Information entered on screen 4797 (accessible from the **Assets/Sales** tab) flows to line 7 (“Ordinary gain or (loss”) of Form 1041 or to line 14 of Schedule D. Screen
OTHER INCOME

Use screen 3 to enter amounts for line 8 (“Other income”) of Form 1041. Enter any type of income that is not reported on lines 1 through 7. (For interest income or dividend income, click the appropriate links on lines 1 and 2 to open the INT or DIV screens.) For line 8 (“Other Income”) on screen 3, an entry in the text box opens a Detail Worksheet (CTRL+W) where you enter a description and an amount. Information entered on the Detail Worksheet appears as a literal on line 8 of the form, or in a statement (depending on your setup and the number of entries in the Ctrl+W worksheet).

Items reported on line 8 include:

- Unpaid compensation received by the estate that is IRD (In Respect of Decedent)
- Any part of a total distribution shown on a Form 1099-R that is treated as ordinary income

W2, W2G, and 1099R Screens

Links on screen 3 to screens W2, W2G, and 1099R allow the preparer to enter W-2 income, income from gambling, and income from pensions, annuities, retirement, IRAs, etc. These amounts also flow to line 8, “Other Income,” of Form 1041. For details on completing these screens, see “Personal Service Income,” “Gambling Income and Loss,” and “Form 1099-R” in Chapter 5 of 2018 Drake Tax User’s Manual.

Form 1099-PATR

Enter the distribution amount from Form 1099-PATR, Taxable Distributions Received from Cooperatives, on the PATR screen, accessible from the Income tab of the Data Entry Menu.

Form 1099-OID

Screen OID, accessible from the Income tab of the Data Entry Menu, gives you a place to enter interest income from Form 1099-OID, Original Issue Discounts.

State 1099 Screens

Drake Tax includes two state-only 1099 screens — 99M for miscellaneous income and 99G for unemployment compensation — to the States tab of the Data Entry Menu.

State Forms 1099-K

Taxpayers who accepted credit or debit cards for payments or received payments through a third-party network that exceeded $20,000 in gross total reportable transactions should have received a Form 1099-K, Payment Card and Third-Party Network Transactions.

Report Form 1099-K data on the 99K screen, available from the States tab of the Data Entry Menu. If any state withholding is shown in box 8, enter it on the 99K screen. (State withholding is the only amount from screen 99K that flows to a state return; nothing from screen 99K flows to a federal return.) See Screen Help (press CTRL+ALT+?) for details and for a link to the 1099-K instructions.
DEDUCTIONS

The “Deductions” section of Form 1041 comprises lines 10 through 21. Many of the amounts for this section can be entered directly using screen 3, although some amounts are calculated from entries on other screens in the program.

DEDUCTION ALLOCATION

Deductions can be directed to one of the income types listed on screen 3 (Figure 2-4).

![Figure 2-4: Screen 3. Applying deductions against ordinary income (#1); allocating income type (#2)]

Below line 30a on screen 3 is an Apply deductions against non-capital gain income first check box (item #1 of Figure 2-4). If you mark this box, the deductions entered on lines 10 through 15b of screen 3 are applied against ordinary income and will preserve the preferential tax rate so that the beneficiaries receive maximum capital gain treatment. For more information, see the field help for this check box, or the IRS instructions.

The Override amount of deductions... fields on screen 3 (item #2 in Figure 2-4) allow you to allocate expenses to certain income types rather than allowing the program to allocate the expenses according to character of the income. The total for these boxes should be no more than the total of all deductions on line 16 of the calculated form.

INTEREST DEDUCTIONS

Use screen 3 to enter interest amounts for line 10 (“Interest”) of Form 1041. See the field-level help for line 10, the screen help on screen 4952, consult IRS instructions, or see Pub. 550, Investment Income and Expenses, for the types of interest to include on line 10.

Form 4952, Investment Interest Expense Deduction, may be required if the estate or trust wishes to claim a deduction for investment interest expense; see Form 4952 instructions or the screen help on screen 4952 for exceptions (select Help from the 4952 screen toolbar or press CTRL+ALT+?). Form 4952 is used for figuring the amount of investment interest expense that can be deducted for the current year, and
the amount that can be carried forward to future years. In Drake Tax, use screen 4952, accessible from the Assets/Sales tab, to complete this form.

**NOTE**  The amount of interest entered on line 10 of screen 3 should not include the amount from Form 4952.

**TAXES**

Use screen 3 to enter data for line 11 (“Taxes”) of Form 1041. The amount entered here should include any deductible taxes paid or incurred during the tax year that are not deductible elsewhere on Form 1041. See the IRS instruction for the types of taxes that are deductible.

**FIDUCIARY FEES**

Enter fiduciary fees on line 12 of screen 3. The amount entered here should include any fees the estate or trust paid or incurred to the fiduciary for administering the estate or trust.

**NOTE**  Fiduciary fees deducted on Form 706, Estate (and Generation-Skipping Transfer) Tax Return, cannot be deducted on Form 1041.

**CHARITABLE DEDUCTIONS (SCHEDULE A)**

The amount for line 13 (“Charitable deduction”) of the return flows from Schedule A, line 7. Use the top section of screen 4 to complete fields for Schedule A.

The calculation for Schedule A flows to line 13 when the return is generated. Entries are also shown in the “Schedule A” section on page 2 of the 1041 return. The Worksheet for Tax-Exempt Income (“Wks TAXEX” in View/Print mode) also displays the calculations for charitable contributions allocated to tax-exempt income.

For more on the Worksheet for Tax-Exempt Income, see “TAXEX Worksheet” on page 33.

**ATTORNEY, ACCOUNTANT, AND RETURN PREPARER FEES**

Use screen 3 to enter data for line 14 (“Attorney, accountant, and return preparer fees”) of Form 1041. The amount entered here should include any attorney, accountant, and return preparer fees that were paid or incurred by the estate or trust.

**NOTE**  Attorney, accountant, and return preparer fees deducted on Form 706, Estate (and Generation-Skipping Transfer) Tax Return, cannot be deducted on Form 1041.
Income Distribution Deduction

Income distribution deduction information flows from entries made elsewhere in the program. This section covers Schedule B (“Income Distribution Deduction”) and Schedule K-1 of Form 1041.

Schedule B

Schedule B, Income Distribution Deduction, is used to determine the estate’s or trust’s income distribution deduction. The amount for line 18 (“Income distribution deduction”) on page 1 of the 1041 return flows from line 15 of Schedule B. Entries to Schedule B can be made on screen 4.

Adjusted Tax-Exempt Interest

Adjusted tax-exempt interest is a calculated amount (based on entries made elsewhere in the program, such as screens INT and DIV) that flows to line 2 of Schedule B. The calculated amount can be overridden with entries in the WK_TAXEX section of screen 5. The calculations are shown on worksheet “Wks TAXEX” in View/Print mode.

Sch A, Line 4 Adjustment

Line 4, “Adjustments for Schedule A, line 4,” in the Schedule B section of screen 4 is an adjustment field; an amount entered here is combined with the amount entered on line 4 of the Schedule A section of screen 4. (This pertains only to trusts other than simple trusts.)

For an estate or trust other than a simple trust or full grantor type trust, amounts must be entered on line 9 (and 10 if applicable) in order for the income distribution deduction to be calculated correctly.

Total Distributions

Line 11 (“Total distributions”) of Schedule B is calculated automatically by the program when the return is generated. If the calculated amount is greater than the amount on line 8 of Schedule B, and your client is filing for a complex trust that has previously accumulated income, Schedule J (Accumulation Distribution for Certain Complex Trusts) may be required. Use screen J, accessible from the Other Forms tab, to complete Schedule J in Drake Tax.

Schedule K-1

Schedule K-1 (Form 1041) is used to report a beneficiary’s share of income, deductions, and credits from either a trust or a decedent’s estate. In Drake Tax, many of the amounts generated on Schedule K-1 flow from elsewhere in the program. Use the override fields on the K1 screen to override program calculations. All income (the
total of lines 1-8, excluding 2b, on the K1 screens) on all K-1s should agree with line 18, “Income distribution deduction,” of Form 1041.

- To see the formula used for calculating the amount for Schedule K-1, see worksheet “Wks Sch K-1” in View/Print mode. For general help for the K1 screen, go to FAQ item M, “Help for Schedule K-1.”
- For information on entering income from a pass-through entity as reported on a Schedule K-1, see “Income from Pass-Through Entities (Schedule K-1)” on page 17.

**NOTES**

**Schedule K-1, Part I**

Part I of the Schedule K-1 (Information About the Estate or Trust), is completed automatically based on the information entered on screen 1 of Drake Tax. (See “Estate, Trust and Fiduciary Information” on page 9.)

**Schedule K-1, Part II**

The following beneficiary information must be entered directly on screen K1:

- **ID number** — Enter the beneficiary’s SSN (for individuals) or entity’s ID number (for an entity). Mark the check box if this K-1 is for a Form 1042S, Foreign Person’s U.S. Source Income Subject to Withholding. (Form 1042S does not require an ID number.)

- **Rounding Beneficiary** — Mark this check box to indicate a rounding beneficiary. That beneficiary will be the one who receives any balancing amount on Schedule K-1 when the return is calculated. (To choose how beneficiaries are listed in View/Print mode, go to the PRNT screen and select from Sort beneficiaries’ Schedules K-1 drop list.)

- **Name and Address** — Separate fields are provided for street address, city, state, and ZIP code. (As with most address fields in Drake Tax, an entry in the ZIP field automatically fills in the City and State fields.) To use the foreign address fields, enter data in the Address and City fields, click in the Foreign ONLY Province/State field, then enter the name of the foreign province or state, as appropriate. Select the appropriate foreign country from the drop list and then enter the postal code, if appropriate.

- **Resident State** — Select the resident state from the drop list, if needed.

- **Percentages** — Use the Fed% and State% fields to indicate the percentage of income, deductions, or credits that the beneficiary received. For instance, to divide the income, deductions, or credits equally among four federal K-1s, enter 25—for 25 percent—in each beneficiary’s Fed% text box.

- **Foreign beneficiary** — Mark the Foreign beneficiary box to indicate that the beneficiary is a nonresident alien individual, a foreign corporation, or a foreign estate or trust.

The K1 screen also has check boxes for indicating an Amended K-1 and a Final K-1.

**NOTE**

From the K1 screen, press PAGE DOWN to create additional K-1 schedules.
Schedule K-1, Part III

Part III, “Beneficiary’s Share of Current Year Income, Deductions, Credits, and Other Items,” of Schedule K-1 is completed automatically by the program based on information entered elsewhere in the program. Use the corresponding fields on screen K1 only if you want to override program calculations for a particular item. For instance, if you place an entry in the override field of line 2a, “Ordinary dividend,” the program accepts this amount (up to the amount in column A of the “Wks Sch K-1” worksheet in View/Print mode; otherwise the program uses the amount calculated on “Wks Sch K-1” worksheet multiplied by the beneficiary’s percentage.

Flow of Depreciation

To have the applicable amount of depreciation, depletion, and amortization flow to Schedules C, E, or F rather than to line 9 of the beneficiary’s Schedule K-1, go to screen 5 and mark the K1 box that states, Carry the applicable amount... (The trust instrument, state law, or federal law should provide guidance.) Note that an estate or trust cannot make an election under section 179 to expense certain tangible property.

K-1 Cover Letters

You can select to generate K-1 cover letters with all 1041 returns. From the Home window of Drake Tax, go to Setup > Options > Optional Documents tab and mark the Include K-1 letters with returns check box. The letters include the name and title entered on the PIN screen of the person who signs the letters.

To generate these letters on a per-return basis, clear the check mark at Setup > Options > Optional Documents tab, and in each return, follow these steps:

1. Open the K1L screen, accessible from the Miscellaneous tab, for the return. (This is also the LTR screen.)
2. At the bottom of the screen, type in the name and title of the person who will sign the K-1 letter. (See NOTES, following.)
3. (optional) To have the fiduciary’s name and address appear in the letterhead of the K-1 letters, from the Home window go to Setup > Communications Editor > Setup > Page Layout and select Use letterhead on letters. The letterhead is derived from information entered on screen 1.
4. (optional) To have your firm’s contact information and logo printed in the letterhead of the K-1 letters, select Print firm info/logo from the Information on the K-1 coversheet... drop list at the bottom of the K1L screen.
5. (optional) Select Don’t Print Entity Info from the Information on the K-1 coversheet... drop list at the bottom of the K1L screen in order to prevent the fiduciary’s or your firm's name and address from appearing in the header of the K-1 letter.

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

To print the coversheet with the letter, (globally), go to Setup > Options > Optional Documents tab, and make a selection from the K-1 Address field of the Envelope Sheet section. To print a coversheet on a per-return basis, go to the PRNT screen (available from the Miscellaneous tab of the Data Entry Menu) of the return and make a selection from the Print K-1 envelope coversheet drop list.

Review the following sections of the 2018 Drake Tax User’s Manual before making changes to letter templates:

NOTES
For an amended return, the K-1 letter automatically refers to the amended K-1. To edit the letter for an amended K-1, from the Home window of Drake Tax, go to Setup > Communications Editor. Click Open > Fiduciary > Fiduciary K1 Amended Letter. Follow the steps outlined in “Introduction to Letters in Drake Tax” in Chapter 2 of the 2018 Drake Tax User’s Manual to make changes in the letter.

**NOTE**

**K1G General Explanation**

Use the **K1G** screen (accessible from the **General** tab of the **Data Entry Menu**) to create statements that allow you to explain any entry on Schedule K-1.

From the **K1 Line and Code** drop list of the **K1G** screen, select the line and code number for that line that you wish to include an explanation for. From the **ID and Name** drop list, select a K-1 recipient. (Only those beneficiaries for whom you have created a **K1** screen appear in the drop list.) In the **General Explanation** text box, include your explanation. Press PAGE DOWN to add another explanation.

A statement is created for each K-1 line explained for the beneficiary selected from the **ID and Name** drop list.

**NOTE**

The statements can printed together on one page or on separate pages in View/Print mode, depending on your selection at Setup > Options > Calculations & View/Print tab. Mark or clear the **Print only one overflow statement per page** check box.

Omit an entry from the **ID and Name** field to include the statement for all K-1 recipients.

**K-1 EXPORT**

Take the following steps to export K-1 information from a fiduciary return into the **K1F** screen of a 1040 return:

1. Ensure that K-1 data is entered in the fiduciary return and that the 1040 return has been created in Drake Tax. (The **K1F** screen in the 1040 does not have to be created beforehand.)
2. In the fiduciary return, go to View mode.
3. 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.
4. All SSNs in the list are eligible for export. Remove the check mark from the box to the left of any SSNs you do not wish to export.
5. Click **Export**. The K-1 data will be displayed in the 1040 return in the program.

**More K-1 Entries**

The **Additional Entries** tab (Figure 2-5) on the K-1 “source” screens (**K1P, K1S, K1F**) in all packages offers 40 more fields for entering and exporting additional K-1 items.
ESTATE TAX DEDUCTION

If the estate or trust includes income in respect to a decedent (IRD) in its gross income, and such an amount was included in the decedent’s gross estate for estate tax purposes, the estate or trust is allowed to deduct, in the same tax year, that portion of the estate tax imposed on the decedent’s estate that is attributable to the inclusion of the IRD in the decedent’s estate.

Use the ETXD (Estate Tax Deduction) screen—accessible from the Other Forms tab of the Data Entry Menu or through the link on line 19 of screen 3—to enter data for this line. Amounts entered on the Estate Tax Deduction screen generate worksheet “Wks Est Tax,” with calculations flowing to line 19 (“Estate tax deduction including certain generation-skipping taxes”) of Form 1041, and box 10 (“Estate Tax Deduction”) of the Schedules K-1.

For details, see the field helps and Screen Help on the Estate Tax Deduction screen.

EXEMPTION

The amount on line 20 (“Exemption”) is an automatic entry, determined by the type of entity filing the return.

- Trusts that must distribute all income are allowed a $300 exemption. (Other types of trusts receive a $100 exemption.)
- Estates receive a $600 exemption
- Estates and trusts filing their final returns (marked Final return in section F of screen 1 in Drake) receive no exemption.
- Qualified disability trust are allowed a $4,050 exemption. (Limits apply.)

TAX AND PAYMENTS

For the “Tax and Payments” section of the Form 1041, the totals come from information entered on screen 3 and elsewhere in the program.
TAX COMPUTATION (SCHEDULE G)

The “Total Tax” amount on Form 1041 flows from Schedule G calculations. Drake Tax makes these calculations when generating the return; results are shown on line 7 of the “Schedule G” section on Form 1041, page 2, with the total tax flowing to line 23 of page 1.

Much of the information used to figure the total tax comes from data entered elsewhere in the program (such as for tax credits), but some comes from direct entry in the “Schedule G” section of screen 4.

Lump-Sum Distributions

An amount on line 1b of Schedule G comes from calculations made when data is entered on screen 4972, accessible from the Taxes tab of the Data Entry Menu.

Alt Min Tax

Schedule I (Form 1041), Alternative Minimum Tax - Estates and Trusts, is used to compute the DNI, income distribution deduction on a minimum tax basis, and the estate’s or trust’s alternative minimum tax (AMT). In Drake Tax, all Schedule I computations are made automatically. To override any of the calculated amounts, use screen I, accessible from the Taxes tab of the Data Entry Menu.

NOTE

No entries are required on screen I unless you want to override the amounts that are automatically calculated by Drake Tax.

Schedule I is printed with the return only when needed. To force the program to print Schedule I, go the PRNT screen (accessible from the Miscellaneous tab) and select Print Form 1041-I (Schedule I - AMT) in the Items to Print section.

CREDITS

To claim a credit other than those appearing on lines 2a through 2d of Schedule G, use the fields on line 2e in the Schedule G section of screen 4. In the first field of line 2e, enter the form number, and in the second field, enter the dollar amount for the credit. Other credits are claimed by entering amount directly onto data entry screens. (Most of these credits are listed on the Credits tab of the Data Entry Menu.)

FOREIGN TAX CREDIT

Line 2a (“Foreign tax credit”) of Schedule G is calculated by the program based on information entered on screens DIV (Dividends), INT (Interest), and 1116 (for Form 1116, Foreign Tax Credit). There is no input field for line 2a on screen 4.
**GENERAL BUSINESS CREDITS**

Use screen **3800** (available from the Credits tab) to claim current-year business credits that are not supported by Drake Tax. In **Part III - General Business Credits**, enter the amounts of nonpassive and passive activities of the unsupported credits.

**NOTE**

Returns with these current-year credit forms that are not supported by Drake Tax must be paper-filed.

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

**CARRYBACKS AND CARRYFORWARDS**

Use screen **GBC** (available from the Credits tab) 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**

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 will match the passive activity carryforward to the current-year credit for Form 8582-CR.
3. Enter the Activity Name (required for computing Form 8582-CR worksheets correctly).
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 changed from the original amount of the credit.
5. In 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.

For more on using screen **3800**, see “General Business Credits” in Chapter 5 of **2018 Drake Tax User’s Manual**.

**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; otherwise, it computes only what remains.

**NOTE**

An amount on Form 3800, General Business Credit, may prevent the return from being eligible for e-file.
**PRIOR-YEAR MINIMUM TAX**

Credit for prior-year minimum tax flows from Form 8801, Prior Year Minimum Tax, to line 2c of Schedule G. In Drake Tax, you can fill out prior-year minimum tax information on screen **8801**, accessible from the Credits tab.

**Bond Credit**

Bond credit flows from screen **8912** to line 2d of Schedule G. In Drake Tax, you can fill out bond credit information on screen **8912**. The **8912** screen is accessible from the Credits tab.

**Net Investment Income Tax**

Use screen **8960**, Net Investment Income Tax, to complete Form 8960, Net Investment Income Tax – Individuals, Estates, and Trusts, used to report the 3.8 percent Net Investment Income Tax that applies to individuals, estates, and trusts that have certain investment income above certain threshold amounts. Screen **8960** is available from the Taxes tab.

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**IMPORTANT**

Such administrative costs as fiduciary fees, attorney fees, and accountant fees, return preparer fees—used to determine the proper amount of adjusted gross income used in the calculation of net investment income tax—are entered on lines 12 and 14 of screen **3**. You can override the amounts used for the AGI calculations by using the override fields on screen **AGI** (available from the Other Forms tab).

Administrative costs other than fiduciary, attorney, accountant, and return preparer fees should be entered on the line 15a of screen **AGI**.

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Most of the fields on screen **8960** are override fields: entries in the fields override system calculations.

**Recapture Taxes**

If the estate or trust disposed of investment credit property or changed its use before the end of its useful life or recovery period, fill out Form 4255, Recapture of Investment Credit (screen **4255**, available from the Assets/Sales tab) and figure the recapture allocable to the estate or trust. When the return is generated, the amount flows from the **4255** screen to line 5 of Schedule G.

If the estate or trust disposed of property (or there was a reduction in the qualified basis of the property) on which the low-income housing credit was figured, complete Form 8611, Recapture of Low-Income Housing Credit. There is no screen in Drake Tax for Form 8611. A blank copy is available from Tools > Blank Forms. Once the amount of recapture credit has been figured using this form, enter that amount in the corresponding field of line 5 in the Schedule G section of screen **4**.

**Household Employment**

Household employment taxes are reported on Schedule H (screen **H** in Drake Tax, accessible from the Taxes tab). When the return is calculated, the total flows to line 6 of Schedule G.

**Line 7 Computation**

If an obligation arising from the disposition of real property to which section 453A or section 453(l) applies is outstanding at the close of the year, the estate or trust must include the interest due under section 453(l) or section 453A(c) in the amount to be
calculated for line 7 of Schedule G, Form 1041. A statement showing the computation is also required.

From line 7 of the Schedule G section of screen 4, click the Required STM link to open the SCH (Unformatted Statement) screen (Figure 2-6). (If you have entered other statements, an Existing Forms list is opened. Double-click the New Record line to open a new statement window.)

From the Type of attachment/statement number and title drop list, select “021 - 1041 Sch G Ln 7, Deferred Tax.” In the large text pane, show your computations for the amount you entered on line 7 of screen 4.

![SCH - Unformatted Attachment to Return](image)

Figure 2-6: From the SCH screen, select “021” from the drop list and show your computation in the text box

For more information, see the IRS instructions for Form 1041.

**PAYMENTS**

Generally, an estate or trust must pay estimated income tax if it expects to owe $1,000 or more in tax, and expects the withholdings and credits to be less than the smaller of:

- 90% of the tax shown on the current-year return
- 100% of the tax shown on the prior-year return

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**NOTE** Estates are not required to pay estimated tax within the first two years of creation.

**ESTIMATED PAYMENTS AND AMOUNT APPLIED FROM PRIOR YEAR**

*Screen code: ES* Pay quarterly and total amounts on the ES screen, accessible from the Taxes tab.

- **Estimated Taxes** — Enter the estimated taxes due for 2019 on the right side of the screen in the fields of the Estimate amount column. From the ES Code drop list, choose how you want payment vouchers to be printed with the return. (Press F1 in the ES Code field to view the full code descriptions.)
- **Overpayment of Taxes** — For overpayment of taxes, make a selection from the OP Code drop list and enter the amount of the overpayments in the applicable text
boxes on the right side of the screen. (Press F1 in the OP Code field to view the full code descriptions.)

- Do not include on Form 1041 any estimated tax paid by an individual before death. Instead, include the payments on the decedent’s final income tax return.

**NOTES**

- For details on using the ES screen for filing 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.

- See Form 1041 instructions for more information on estimated taxes.

### Other Features of ES Screen

Three other features on the Estimated Taxes (ES) screen:

- The program automatically generates federal estimated tax payment vouchers when they are required—for instance, when the taxpayer has a balance due of $1,000 or more—unless you choose to not generate the vouchers.

- If you are not filing four quarterly 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 “0” in the Estimate amount voucher field for quarter the payment was not be made.

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

### Estimated Payments Allocated to Beneficiaries

Form 1041-T, Allocation of Estimated Tax Payments to Beneficiaries, is used to elect, under section 643(g), to have all or part of an estate or trust’s estimated tax payments (but not income tax withheld) treated as having been made by the beneficiary or beneficiaries.

To enter estimated tax payments that are allocated to the beneficiaries and to generate Form 1041-T, Allocation of Estimated Tax Payments to Beneficiaries, open screen 3 and go to line 24b. Enter in this field any of the estimated tax paid on Form 1041-ES that is allocated to the beneficiaries. This amount flows to line 10 of Schedule B (line 9 for simple trusts), Schedule K-1, and to Form 1041-T if the K1 screens contain data.

- If an amount is entered in field on line 24b of screen 3, a filing date is required. Form 1041-T must be filed within 65 days of the end of the tax year or the election is invalid.

**NOTES**

- A 1041 return with an amount on line 24b of screen 3 may not be e-filed.

- The election to allocate estimates to beneficiaries can be made only by a trust, or in the final year of an estate.

### Tax Paid with Extension

If Form 7004 was filed previously and Form 1041 is now being filed, use screen EXT (available from the Other Forms tab of the Data Entry Menu), mark the Extension was previously filed... check box, enter the amount of tax paid with the extension, and the date the tax was paid with the Form 7004.

For more information on filing Form 7004, see “Filing an Extension” on page 47.
Federal Income Tax Withheld

Federal income tax withheld reported on screens 8949, 1099, INT, DIV, W2, W2G, K1P, K1F and K1S flows to line 24e of Form 1041 automatically. This includes any federal income tax withheld (and not repaid) by:

- An employer on wages and salaries of a decedent received by the estate
- A payer of certain gambling winnings (such as state lottery winnings)
- A payer of distributions from pensions, annuities, retirement, or profit-sharing plans, IRAs, insurance contracts, etc., received by a decedent’s estate or trust

Any amount entered on screen 3, line 24e (“Federal income tax withheld”) adjusts the calculated amount. Select the Mark if any is from Form 1099 check box if any federal income tax withheld and entered on this line is from Form 1099. This box is marked automatically if federal tax withholdings are entered on screen INT, DIV, or 1099R.

Note

Except for backup withholding, withheld income tax may not be passed through to beneficiaries on either Schedule K-1 or Form 1041-T.

Other Payments (Forms 2439 and 4136)

Lines 24f and 24g of Form 1041 are used to report other payments from Form 2439 (Notice to Shareholder of Undistributed Long-Term Capital Gains) and the refundable credit from Form 4136 (Credit for Federal Tax Paid on Fuels), respectively.

For Form 2439, complete screen 2439, accessible from the Assets/Sales tab of the Data Entry Menu. The calculated amount flows from that screen to line 24f of Form 1041.

The line 24g amount comes from calculations of the fuel tax credit from Form 4136, Credit for Federal Tax Paid on Fuels. Use screen 4136 (accessible from the Credits tab) to complete Form 4136; the calculated credit flows to line 24g of Form 1041.

Note

Screen 4136 consists of two screens. The first screen covers lines 1 through 8f, and the second screen covers lines 9 through 16b. To access the second screen from the first, press PAGE DOWN.

Estimated Tax Penalty

Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, is used to determine whether a penalty is owed for underpaying estimated tax, and to determine the amount of the penalty. In Drake Tax, use screen 2210 (accessible from the Taxes tab or the Form 2210 link on screen 3) to complete Form 2210. When the return is generated, the calculation from screen 2210 flows to Form 1041, line 26 (“Estimated tax penalty”).

If screen 2210 is not used, a tax penalty amount can be directly entered on line 26 of screen 3. If you do use screen 2210, an entry on screen 3 is not necessary. If you use the 2210 screen and enter a number on line 26 of screen 3, the program overrides the
calculated amount from screen 2210 and used the screen 3 entry on line 26 of the form.

**NOTE**

To calculate the tax penalty, the program uses the amount of tax paid from the previous year. If the return was not updated from last year, you must manually enter the amount of tax paid. To do so, go to screen 1 and complete the 2210 Information section on the lower right side of the screen.

For details on using the ES screen for filing 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.

**OTHER INFORMATION**

To complete the “Other Information” section on page 2 of Form 1041, use the Yes/No check boxes and other fields provided on screen 5. The following sections provide additional information on completing this part of Form 1041.

**TAX-EXEMPT INCOME**

If the estate or trust received tax-exempt income, the total is calculated from amounts entered on other screens for tax-exempt income — for instance, on line 8 of INT screen or line 11 of the DIV screen. The “Yes” column in the “Other Information” section of page 2 of Form 1041 is marked and the amount appears on line 1 (as noted in Figure 2-7):

![Figure 2-7: Notation on line 1 of the “Other Information” section that tax-exempt interest and/or dividends were received and shows the amount](image)

If the estate received tax-exempt income not included in interest or dividends as reported on the INT and DIV screens, enter that amount at the top of screen 5. Such tax-exempt income might include, for example:

- Certain death benefits (section 101)
- Compensation for injuries or sickness (section 104)
- Income from discharge of indebtedness in a title 11 case (section 108)

**TAXEX Worksheet**

If tax-exempt interest and certain deductions are present in the return, the program produces a Worksheet for Tax-Exempt Income (Wks TAXEX). The worksheet consists of four statements:

- Part I: Tax-Exempt Ratios
- Part II: Allocation of Tax-Exempt Income
• Part II: Schedule B, Line 12 Computation
• Part IV: Schedule B, Line 2 Computation

The amounts and other information on this worksheet are calculated by the program; however, you can override certain lines on the worksheet as needed. To do so, use the WK_TAXEX - Worksheet for Tax Exempt Income section of screen 5. These fields allow you to override program calculations for charitable contributions, fiduciary, attorney, accounting, and preparer fees, other administrative fees, and other deductions allocable to tax-exempt income.

**Tax-Exempt Income**

Line 12 of Schedule B on screen 4 is an override field. The program does the calculation for this line on Schedule B—the amount of tax-exempt income on line 11, “Total distributions”—without an entry here, but there might come a time when you wish to override the calculated amount. You can make that override on line 12.

**FOREIGN BANK INFORMATION**

If the estate or trust had an interest in or signature over a bank, securities, or other financial account in a foreign country, click the Yes check box on line 3 of screen 5 and make the appropriate selections from the foreign country drop lists just below.

If that interest exceeded certain thresholds, the Bank Secrecy Act may require the estate or trust to report to e-file a Report of Foreign Bank and Financial Accounts (FBAR) annually. For help understanding which estates and trusts must file a FBAR, click the Who Must File link on line 3 of screen 5. (An Internet connection is required.)

To complete FinCEN Form 114 in Drake Tax, go to screens FRGN and 114 (accessible from the Foreign tab of the Data Entry Menu). To file the form, click the BSA E-Filing System link to the Financial Crimes Enforcement Network’s website near the top of screen 114.

Also available on the Foreign tab are the screens used in completing Form 8938, Statement of Specified Foreign Financial Assets.

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

**IMPORTANT**

Allow yourself time to read and understand all the information available on the BSA website and to register as a BSA e-filer.

**SELLER-PROVIDED FINANCING**

If the estate or trust is claiming an interest deduction for qualified residence interest paid on seller-provided financing, the IRS requires an attachment with the name, address, and taxpayer ID of the seller. To enter this information, click the Paid link on line 5 of screen 5 to open the Qualified Residence Interest Paid on Seller-financed Mortgage screen. (Also available from the Income tab of the Data Entry Menu.)

This screen accepts information for up to three sellers. Entering information on this screen generates an indicator in the “Yes” column on line 5 in the “Other Information”
section on page 2 of Form 1041 and generates a statement containing information on
the sellers.
If the estate or trust received seller-financed mortgage interest, open the INT screen. 
At the top of the screen mark the Seller-financed mortgage check box, then complete the 
Payer Information section.
To enter information on an installment sale, click the 6252 link from line 5 of screen 5.

For details on updated and streamlined data entry of installment sales data, see the following chapters in the 2018 Drake Tax User’s Manual:

- For how multi-form codes work, see “Associating On Screen with Another” in Chapter 3.
- For more on completing data entry for installment sales and group sales, see “Reporting Installment Sales” in Chapter 5.
For more on reporting asset depreciation with screen 4562, see “Completing Form 4562, Depreciation and Amortization” in Chapter 5.

**ESTATE OPEN TWO+ YEARS**

Screen code: MISC

Mark box 8 on screen 5 if the decedent’s estate has been open for more than two years. 
The IRS requires a separate explanation for the delay in closing the estate. To create 
this explanation in the program, go to the SCH screen (available from the Miscellaneous tab of the Data Entry Menu), select R from the Type of attachment drop list, enter the explanation in the large text box on that screen, and enter a title at the bottom of the screen. A statement entitled “EF Reg Note” is generated in View/Print mode.

**ELECTIONS**

Screen code: ELEC

The ELEC screen allows the preparer to make various “elections” from the IRS code. 
If you mark a box on this screen, go to the SCH screen to produce a statement for the election.

Screen code: SCH

For elections not listed on the ELEC screen, open the SCH screen (available from the Miscellaneous tab of the Data Entry Menu). From the Type of attachment drop list on the SCH screen, select E - Election Explanation, as shown in Figure 2-8. Enter an explanation for the election in the text box. At the bottom of the screen, enter a title for the statement if you wish.

![Figure 2-8: Completing election statement on SCH screen](image)

The program produces a Preparer Note (listed as “Election” in View/Print mode) noting the election selected (Figure 2-9 on page 36).
Figure 2-9: The election explanation appears as an “Election” statement

NOTE Making these elections and completing these statements does not change the calculation of the return.

SAFE HARBOR ELECTIONS

Among the choices you can make from the ELEC screen:

• Sec. 1.263(a) - 1(f) de minimis safe harbor election
• Sec. 1.263(a) - 3(n) Election

Election statements are generated with the return (Figure 2-10).

Figure 2-10: Election statements generated with ELEC screen selection

The Sec. 1.263(a) - 3(h) election can be made from either the ELEC screen or the 4562 screen. An election statement is produced and the building description as entered in the Description field is included in the election statement.


THE PDF ATTACHMENT PROCESS

Binary, or PDF, files can be attached to certain tax forms in the Fiduciary package. All such documents are attached through use of the PDF Attachments screen, accessible from the Electronic Filing and Banking section on the General tab of the Data Entry Menu.

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

To create a PDF file:

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

**Tip**

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

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

**Note**

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

Adding PDF Documents in Drake Tax

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

1. Open the return in Drake Tax. 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) (Figure 2-11).

Figure 2-11: Select **PDF Attachments**, or type PDF into the selector field and press ENTER

2. Fill out the columns on the **PDF Attachments** screen. See Table 2-1 for examples.

<table>
<thead>
<tr>
<th>Name of Column</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reference Source</strong></td>
<td>Name or number of regulation, publication, or form instruction that makes attachments necessary</td>
<td>- IRS Pub xxx-1.4</td>
</tr>
<tr>
<td></td>
<td>(This field is for your records only; it is not transmitted with the PDF.)</td>
<td>- Form Instructions for 1041</td>
</tr>
</tbody>
</table>
3. Exit the PDF Attachments window.

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

To attach a PDF file to a return:

1. From the return, click View. If anything was entered in the PDF Attachments window (see “Adding PDF Documents in Drake Tax,” above), there will be two PDF–related items in the View/Print window:
   - An EF Message alert (item #1 in Figure 2-12)
   - An Attach PDF button on the toolbar (item #2 in Figure 2-12)

2. Click the MESSAGES file to view EF Messages, including information on how to attach the required documents to the return.

3. Click the Attach PDF button. The EF PDF Attachments window displays the information entered on the PDF Attachments screen 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 document. (See Figure 2-13 on page 39.)
4. Click the row of a document to attach.
5. Click Browse to search for the proper folder, select the PDF file to attach, and click Open (or double-click the file name).

Repeat for all documents with an X. When all documents have been attached to a completed return (and show a check mark), recalculate the return. If all EF Messages have been resolved, 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.

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

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**NOTES**

Form 3115 is eligible for e-file, although, in some instances, Form 3115 must still be paper-filed. See IRS instructions for details.

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

---

**ACCESSING SCREENS FOR CHANGING ACCOUNTING METHOD**

Several screens may be required to complete Form 3115. These screens are accessible from the Change in Accounting Method box, located under the Other Forms tab of the Data Entry Menu (Figure 2-14 on page 40).
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 2-15 on page 41) that allows you to link a screen or attachment to a particular Form 3115.

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

**NOTE** If only one Form 3115 is being submitted, 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 six 3115 screens as tabs across the top of the first screen. These six screens are:

- **Parts I** (Form 3115, Application for Change)
- **Parts II** (Parts II, Information for All Requests)
- **Parts III, IV** (Form 3115, Parts III and IV)
- **A, B, C** (Schedules A, B, and C)
OTHER SCREENS FOR COMPLETING FORM 1041

Drake Tax provides numerous screens that are not always needed for completing Form 1041. These screens are accessible through the Income tab, the Assets/Sales tab, the Credits tab, the Taxes tab, and the Other Forms tab. Most of them work in the 1041 program just as they do in the 1040 program. Information on these screens and forms is available in the 2018 Drake Tax User’s Manual.

The following sections provide further information on these screens.

Oil and Gas Depletion Worksheet

The DEPL screen is accessible from the Income 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 entity (beneficiaries or fiduciary) the best deduction to the proper form or schedule. (Not all entities 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.

Income Screens

Most of the Income screens have been covered elsewhere in this manual. Listed in Table 2-2 are those that are available but are not covered in this document.

<table>
<thead>
<tr>
<th>Screen</th>
<th>Schedule or Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>6198</td>
<td>Computation of Deductible Loss</td>
</tr>
<tr>
<td>CIDP</td>
<td>Crop Insurance and Disaster Payments</td>
</tr>
</tbody>
</table>
Many of the **Assets/Sales** screens have been covered elsewhere in this manual. Listed in Table 2-3 are those that are available but are *not* covered in this document.

### Table 2-3: Other Screens Available From the **Assets/Sales** Tab

<table>
<thead>
<tr>
<th>Screen</th>
<th>Schedule or Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>4684</td>
<td>Form 4684, Casualties and Thefts</td>
</tr>
<tr>
<td>6781</td>
<td>Form 6781, Gains and Losses From Section 1256 Contracts and Straddles</td>
</tr>
<tr>
<td>8824</td>
<td>Form 8824, Like-Kind Exchanges</td>
</tr>
</tbody>
</table>

Get more information on these screens by clicking **Help** from the screen toolbar (or pressing `CTRL+ALT+?`), by pressing F1 in the various fields of the screens, or by reading about the equivalent screens in the *2018 Drake Tax User’s Manual*.

### Depreciation

Use the **Depreciation Detail** (4562) screen to enter depreciable assets for Schedule C, Schedule E, or Schedule F or the Auto Expense worksheet (“Wks Auto” in View/Print mode). For more information on depreciation and the 4562 screen (Form 4562, Depreciation and Amortization) in Drake Tax, see the *2018 Drake Tax User’s Manual*.

### NOTES

IRS rules do not allow section 179 depreciation in 1041 returns. Drake Tax produces one Form 4562 for each property on Schedule E instead of one 4562 per Schedule E.

### Credits

A number of credits are allowed on Form 1041 even though they were not allowable on the decedent’s final income tax return. For more information on credits, see the “Credits, Tax, and Payments” section of IRS Pub. 559, Survivors, Executors, and Administrators.

As is the case on the **Assets/Sales** tab, most of the screens available through the **Credits** tab are identical to their counterparts in 1040 returns. Many of the **Credits** screens have been covered elsewhere in this manual. Listed in Table 2-4 are those **Credits** screens that are available but are not covered in this document.

### Table 2-4: Other Screens Available From the **Credits** Tab

<table>
<thead>
<tr>
<th>Screen</th>
<th>Form and Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>3468</td>
<td>Form 3468, Investment Credit</td>
</tr>
<tr>
<td>5884</td>
<td>Form 5884, Work Opportunity Credit</td>
</tr>
<tr>
<td>6478</td>
<td>Form 6478, Biofuel Producer Credit</td>
</tr>
<tr>
<td>6765</td>
<td>Form 6765, Credit for Increasing Research Activities</td>
</tr>
<tr>
<td>8586</td>
<td>Form 8586, Low Income Housing Credit</td>
</tr>
<tr>
<td>8609</td>
<td>Form 8609, Low-Income Housing Credit Allocation and Certification</td>
</tr>
<tr>
<td>8820</td>
<td>Form 8820, Orphan Drug Credit</td>
</tr>
</tbody>
</table>
Table 2-4: Other Screens Available From the Credits Tab

<table>
<thead>
<tr>
<th>Screen</th>
<th>Form and Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>8826</td>
<td>Form 8826, Disabled Access Credit</td>
</tr>
<tr>
<td>8834</td>
<td>Form 8834, Qualified Plug-in Electric and Electric Vehicle Credit, has expired for the current year. The credit will apply only if there is a passive carryover from a prior year.</td>
</tr>
<tr>
<td>8835</td>
<td>Form 8835, Renewable Electricity, Refined Coal, &amp; Indian Coal Production Credit</td>
</tr>
<tr>
<td>8844</td>
<td>Form 8844, Empowerment Zone and Renewal Community Employment Credit</td>
</tr>
<tr>
<td>8845</td>
<td>Form 8845, Indian Employment Credit</td>
</tr>
<tr>
<td>8846</td>
<td>Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips</td>
</tr>
<tr>
<td>8864</td>
<td>Form 8864, Biodiesel Fuels Credit</td>
</tr>
<tr>
<td>8874</td>
<td>Form 8874, New Markets Credit</td>
</tr>
<tr>
<td>8881</td>
<td>Form 8881, Credit for Small Employer Pension Plan Startup Costs</td>
</tr>
<tr>
<td>8882</td>
<td>Form 8882, Credit for Employer-Provided Child Care Facilities and Services</td>
</tr>
<tr>
<td>8896</td>
<td>Form 8896, Low Sulfur Diesel Fuel Production Credit</td>
</tr>
<tr>
<td>8910</td>
<td>Form 8910, Alternative Motor Vehicle Credit</td>
</tr>
<tr>
<td>8911</td>
<td>Form 8911, Alternative Fuel Vehicle Refueling Property Credit</td>
</tr>
<tr>
<td>8912</td>
<td>Form 8912, Credit to Holders of Tax Credit Bonds</td>
</tr>
<tr>
<td>8936</td>
<td>Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit</td>
</tr>
<tr>
<td>8941</td>
<td>Form 8941, Small Employer Health Insurance Credit</td>
</tr>
<tr>
<td>CR</td>
<td>Form 8562-CR, Passive Activity Credit Limitations</td>
</tr>
</tbody>
</table>

NEW FOR 2018

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.

Table 2-5: Other screens available from the Taxes tab

<table>
<thead>
<tr>
<th>Screen</th>
<th>Form and Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESTB</td>
<td>Schedule G - ESTB Tax Computation Statement</td>
</tr>
<tr>
<td>4970</td>
<td>Form 4970, Tax on Accumulated Distribution of Trust</td>
</tr>
</tbody>
</table>
OTHER SCREENS

Listed in Table 2-6 on page 44 are those **Other Forms** tab screens that are available but are not covered in this document. For more information on using those screens listed below that have equivalents in the 1040 package, see the *2018 Drake Tax User’s Manual*. You can also use the screen help and field-level helps for individual screens.

**Table 2-6: Other Screens Available From Other Forms Tab**

<table>
<thead>
<tr>
<th>Screen</th>
<th>Screen or Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>642</td>
<td>Charitable Contributions Paid in Prior Year - Section 642(c)(1) Election</td>
</tr>
<tr>
<td>BR</td>
<td>Bankruptcy Estate</td>
</tr>
<tr>
<td>ETXD</td>
<td>Income that the decedent had a right to receive at the time of death (had death not occurred) that was not included on decedent's final Form 1040 and was included in the gross estate (Form 706) and subject to estate tax is “income in respect of a decedent.” (IRD).</td>
</tr>
<tr>
<td>56</td>
<td>Form 56, Notice Concerning Fiduciary Relationship</td>
</tr>
<tr>
<td>911</td>
<td>Request for Taxpayer Advocate Service Assistance</td>
</tr>
<tr>
<td>NOL</td>
<td>Form 1045, Application for Tentative Refund, and Schedule A</td>
</tr>
<tr>
<td>1045</td>
<td>Computation of decrease in tax and Schedule B of Form 1045</td>
</tr>
<tr>
<td>2848</td>
<td>Form 2848, Power of Attorney and Declaration of Representative</td>
</tr>
<tr>
<td>8082</td>
<td>Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)</td>
</tr>
<tr>
<td>8275</td>
<td>Form 8275, Disclosure Statement</td>
</tr>
<tr>
<td>8594</td>
<td>Form 8594, Asset Acquisition Statement Under Section 1060</td>
</tr>
<tr>
<td>8821</td>
<td>Form 8821, Tax Information Authorization</td>
</tr>
<tr>
<td>8822</td>
<td>Form 8822, Change of Address</td>
</tr>
<tr>
<td>8829</td>
<td>Form 8829, Expenses for Business Use of Your Home</td>
</tr>
<tr>
<td>8855</td>
<td>Form 8855, Election to Treat a Qualified Revocable Trust as Part of an Estate</td>
</tr>
<tr>
<td>8903</td>
<td>Form 8903, Domestic Production Activities Deduction</td>
</tr>
<tr>
<td>8948</td>
<td>Explanation for Not Filing Electronically</td>
</tr>
</tbody>
</table>

**Misc. Tab**

Listed in Table 2-7 are those **Miscellaneous** tab screens that are available but are not covered in this document. For more information on using those screens listed below that have equivalents in the 1040 package, see the *2018 Drake Tax User’s Manual*. You can also use the screen help and field-level helps for individual screens.

**Table 2-7: Other Screens Available From Miscellaneous Tab**

<table>
<thead>
<tr>
<th>Screen</th>
<th>Screen or Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADMN</td>
<td>Tracking return preparation and banking data</td>
</tr>
<tr>
<td>BILL</td>
<td>Client Bill - Adjustments and Payments</td>
</tr>
</tbody>
</table>
Table 2-7: Other Screens Available From Miscellaneous Tab

<table>
<thead>
<tr>
<th>Screen</th>
<th>Screen or Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMP</td>
<td>Compare current-year tax return with two prior tax years.</td>
</tr>
<tr>
<td>ESUM</td>
<td>Provides an e-file summary of the return.</td>
</tr>
<tr>
<td>HIDE</td>
<td>To keep a specific Return Note from being generated whenever you view a return, enter the number of the note to hide in one of the boxes, and then recalculate the return.</td>
</tr>
<tr>
<td>MISC</td>
<td>Miscellaneous Screen — Final Year Override field (See field help before making an entry in this field.)</td>
</tr>
<tr>
<td>PREP</td>
<td>Preparer Information Overrides</td>
</tr>
</tbody>
</table>

MISCELLANEOUS CODES FOR TRACKING

At the right side of screen 1 are two Misc code fields that can be used for tracking purposes. For more information on using these miscellaneous codes, see “Customized Drop Lists” in Chapter 2, “Installation & Setup,” of 2018 Drake Tax User’s Manual.

FORM 1041-A

Form 1041-A, U.S. Information Return Trust Accumulation of Charitable Amounts, is used to report the charitable information required by section 6034 and the related regulations. It must be filed by a trustee if the trust claims a charitable or other deduction under section 642(c) unless an exception applies; see IRS instructions for more information.

If the trustee must file Form 1041-A, go to the 1041-A tab, from which you can access screens for Parts I, II, III, and IV of Form 1041-A. You can also open screen 8868 (for an extension application) from this tab.

NOTE

If filing an extension for Form 1041-A, mark the Form 1041-A check box on screen 8868.

FORM 5227

Form 5227, Split-Interest Trust Information Return, is used to report the financial activities of a split-interest trust, provide certain information regarding charitable deductions and distributions of or from a split-interest trust, and determine if the trust is treated (for Chapter 42 excise tax purposes) as a private foundation and subject to certain excise taxes under Chapter 42.

To access screens for completing Form 5227, go to the 5227 tab of the Data Entry Menu. You can open screen 8868 (for an extension application) from this tab also.

Schedule A of the form is used to report accumulations of income for charitable remainder trusts, distributions to non-charitable beneficiaries, and information about donors and assets contributed during the year.
Sign the Return

Screen Code: DIST

Use the distribution screen (DIST) to report distributions on Form 5227 for split-interest trusts. Access the DIST screen from the 5227 tab of the Data Entry Menu. Entries on the DIST screen flow to the Schedules K-1 based on percentages entered on the K1 screens.

Form 5227 must be paper-filed. See Drake Software’s Knowledge Base for articles on filing the form.

**NOTE** If filing an extension for Form 5227, mark the Form 5227 check box on screen 8868.

**SIGNING THE RETURN**

A 1041 return must be signed by the fiduciary or authorized representative. You can use Form 8879-F or Form 8453-F to provide a signature for an e-filed return.

**FORM 8879-F**

Form 8879-F, IRS e-file Signature Authorization for Form 1041, should be used if the preparer is a paid preparer whose information and PIN have been recorded in Setup > Preparer(s) and if the fiduciary wants to use a Personal Identification Number (PIN) to electronically sign the return. This form also serves as consent to electronic funds withdrawal (direct debit) for payment of balance due.

To e-file using Form 8879-F, complete all fields on the PIN screen, including the title and signature (Representing Officer Information fields) of the fiduciary or officer.

- **Setup > ERO** must still be completed for e-file. See the IRS instructions for further details on signature requirements.
- If the return is not prepared by a paid preparer, go to screen 1 and select None for Firm # and Preparer #. Use Form 8453-F to file the return electronically.
- To use an alternative electronic signature, see the field-level help for the Alternative Electronic Signature PIN text box on the PRNT screen (available from the Miscellaneous tab).

**NOTES**

- **e-Signing Form 8879-F**
  You can take advantage of the e-Signature feature of Drake Tax and use an electronic signature pad to sign—and have your client sign—Form 8879-F.
  For details, see Chapter 6, “Return Results,” of the 2018 Drake Tax User’s Manual.

**AMENDING A RETURN**

To file an amended Form 1041:

1. Open screen 1 and select the Amended return box in section F.
2. Correct or add new information on the appropriate lines of the return.
3. Re-figure the estate’s or trust’s tax liability.
4. Return to screen 1 and click the Amended Expl link beside the Amended return box.
5. On the Amended Changes screen:
a. Enter the number of the line you changed.
b. Describe the line you changed. (For instance, you might enter, “Interest Income” if you changed line 1 of page 1 of Form 1041.)
c. Enter previous and amended amounts.
d. Enter an explanation.

5. Press PAGE DOWN for another screen to explain another change.

If an amended return results in a change to income, distribution, or other information provided to a beneficiary, an amended Schedule K-1 must also be filed with the 1041 and copies given to each beneficiary. To have the program generate an amended Schedule K-1, go to the K1 screen and select the Amended K-1 box.

NOTE
If the total tax is larger on the amended return, taxpayer should generally pay the difference with the amended return

FILING AN EXTENSION

For calendar-year estates and trusts, Form 1041 and the K-1 schedules must be filed on or before April 15, 2019. Fiscal-year estates and trusts must file Form 1041 by the 15th day of the fourth month following the close of the tax year.

When the extension application is submitted, the due date is extended for five-and-a-half months following the regular due date.

To apply for an extension, open the EXT (or 7004) screen, available from the Other Forms tab. If this is a short-year return, select the reason on line 5b. (If the reason is not listed, explain the reason in the Other (describe) text box.)

An entry on either line 6 or 7 overrides calculated amounts.

STATE-SPECIFIC INFORMATION

The program automatically generates a return for the estate’s or trust’s resident state. Use screen 2 to enter additional, state-specific information as it should appear on the state return. (Access screen 2 from the States tab, or enter 2 in the selector field and press ENTER.)

NOTE
The information fields on screen 2 apply for the resident state only.

Screen 2 has fields for the following information:
• Trust information (revocable, irrevocable, testamentary, inter vivos, charitable remainder)
• Method of accounting (cash, accrual, other)
• Additional fiduciary information overrides (state purposes only)

Specific data for state fiduciary/trust returns must be entered manually using screens for the specific state. To access state data entry, select the States tab from the Data
Entry Menu, and then select the desired state for state-specific screens, or enter the two-letter state abbreviation in the selector field and press ENTER.

**Making Changes on the Fly**

Use the PRNT screen to override most program defaults.

**Suppress or Force Printing**

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 options that are set up globally at Setup > Options.

**Items to Print**

The following PRNT screen options allow you to force forms and other information to be generated with the return:

- **Print Form 1041-I** — Generates Schedule I, Alternative Minimum Tax – Estates and Trusts, with the return. (This option overrides the Print Form 6251 only when required option in Setup > Options > Form & Schedule Options.)
- **Print Form 461** — Limitations on Business Losses. (If the calculated amount of line 16 is “$0” (zero) or greater, retain for your files only; do not mail or attach to the return.)
- **Print Form 1045, page 3** — Generates Form 1045, Application for Tentative Refund, page 3, when taxable income is less than “0” (zero), and it did not result in a current-year NOL.
- **Print Form 2210** — Generates Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts. (See “Estimated Tax Penalty” on page 32 for details.)
- **Print Form 4562** — Generates Form 4562, Depreciation and Amortization, with the return. (This option overrides the Print Form 4562 only when required option in Setup > Options > Form & Schedule Options.)
- **Print Form 4952** — Generates Form 4952, Investment Interest Expense Deduction. (See “Interest Deductions” on page 20 for details.)
- **Print Form 8582** — Generates Form 8582, Passive Activity Loss Limitations, with the return.
- **Print Form 8960** — Generates Form 8960, Net Investment Income Tax - Individuals, Estates, and Trusts.
- **Print next year depreciation listing**— Select this box to generate the next year’s depreciation schedule. (This option overrides the Next-year depreciation schedule option in Setup > Options > Form & Schedule Options.)
- **Print summary** — Select this box to print a diagnostic summary report with the tax return. The summary report lists the forms calculated and provides a brief summary of the return.
- **Print comparison** — Select this box to include a one-page report comparing the client’s 2018 return to the 2017 return when the return is generated.
- **Print K-1 codes (Schedule K-1, page 2)** — Schedule K-1 consists of two pages: page 1 is the form itself, and page 2 consists of K-1 code explanations. By default,
Drake generates only the first page of the K-1. To have page 2 generated with the return, select this box.

**NEW FOR 2018**

Code sheets are now displayed in View/Print mode, listed as “Schedule K-1 Codes.” When the return is printed, the code sheets are printed after the Schedules K-1.

**Items to Suppress**

Listed below are the options, available from the PRNT screen, for suppressing information from the generated return:

- **Alternative Electronic Signature PIN** — The preparer’s alternative PIN entered here must match the one created in Setup > Preparers.
- **Proformas** — Choose not to generate a proforma for this client next year.
- **K-1 schedules and letters** — Choose not to generate these items with the return.
- **Grantor Trust Letter** — Choose not to generate this letter for a grantor trust.

There is no global setting in Setup > Options for any of these items.

**Overriding Other Printing Options**

Printing of the following items can be either forced or suppressed from the PRNT screen to override the program defaults and global options selected in Setup Options:

- Envelope cover sheet with taxpayer address
- Envelope cover sheet with IRS address
- Envelope cover sheet with state taxing authority address
- Envelope cover sheet with city taxing authority address
- Envelope cover sheet with K-1s
- Federal filing instructions
- State filing instructions
- Date shown on return (default is current system date)
- Due date to be printed on letters and filing instructions

**NOTE**

To have the program suppress the date from the return, go to the Home window, select Setup > Options > Optional Items on Return tab, and clear the Date on return check box. If you enter a date on the PRNT screen of a return, that date will be shown on the return—regardless of what is selected in Setup Options.

- **Sort Beneficiaries’ Schedules K-1** — Choose the order in which the program sorts, views, and prints beneficiaries’ K-1s. From the drop list, select **ID Number**, **First name**, **Last name**, or **Percentage**.
LISTING A DIFFERENT FIRM, PREPARER, OR ERO ON A RETURN

By default, the program generates the information shown in Table 2-8 on the return.

Table 2-8: Firm, Preparer, and ERO Data that Can Be Changed on the Fly

<table>
<thead>
<tr>
<th>Information</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm</td>
<td>Firm #1 from Firm Setup (first firm entered in Setup &gt; Firm(s))</td>
</tr>
<tr>
<td>Preparer</td>
<td>Preparer who fills out the return (entered in Setup &gt; Preparer(s))</td>
</tr>
<tr>
<td>ERO</td>
<td>ERO from Setup &gt; ERO; appears on Form 8879-F, IRS e-file Signature Authorization</td>
</tr>
</tbody>
</table>

To override any of these defaults for a return, go to screen 1 of the return. In the Other information section of the screen, select the name or number of the firm, preparer, and ERO.

You can also use the PREP screen (accessible from the Miscellaneous tab of the Data Entry Menu) to override the following information:
- Federal preparer information (if the firm is not set up in Firm Setup)
- State preparer information (if the firm is not set up in Firm Setup)

ELECTRONIC FILING

Steps for e-filing a 1041 are same as for a 1040. See the 2018 Drake Tax User’s Manual for details. For information on signing the return electronically, see “Signing the Return” on page 46.

NOTE

Short-year return cannot be e-filed unless they are initial-year or final-year returns.

“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 fiduciary 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 Tax-generated form that serves the same purpose as Form 9325: an acknowledgment that a return has been transmitted through Drake Tax and received by the IRS or the applicable state agency.

When a return is e-filed and you receive a “P” ack (indicating that the return is being processed), 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 box is marked 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.

**Electronic Funds Withdrawal (Direct Debit)**

Use the PMT screen, accessible from the General tab, to indicate that funds due are to be electronically withdrawn (direct-debited) from an account.

**Program Defaults and Overrides**

By default, the program indicates that the entire balance due is to be electronically withdrawn on the return due date, unless otherwise indicated.

- **Balance due** — To indicate that only part of the balance due should be withdrawn from the account, enter the amount to be withdrawn in one or both of the payment amount override fields: Federal payment amount or State payment amount.

- **Payment date** — Use the Requested payment date override fields to request a payment date other than the due date. If the return is e-filed on or before the due date of a calendar year (April 17 for a 2018 return), the requested payment date cannot be later than the due date. If the return is transmitted after the due date, the requested payment date cannot be later than the current date.

- **Phone number** — An entry in the Daytime phone number field overrides the phone number entered on screen 1.

**Required Information**

A Withdrawal selection (Yes or No from the Federal selection drop list, and a selection from the State/city selection drop list if applicable) is required if the program is to direct tax authorities to electronically withdraw funds from the account indicated.

The name of the financial institution, the financial institution’s routing number (RTN), the client’s account number, and the type of account (checking or savings) are required. The RTN, Account number, and Type of account must be entered twice.

**State Balance Due**

To have a state balance due electronically withdrawn from an account other than the account indicated for federal, complete the fields in the Account #2 section of the PMT screen.

**Note**

See the State/city selection drop list for a list of states currently accepting payments through the PMT screen.

**Foreign Accounts**

Due to new banking regulations regarding International ACH transactions (IAT), state taxing agencies are required to handle foreign transactions differently from domestic transactions. For filing season 2018, no states are supporting IATs.

If a state payment is coming from or through an account located outside of the U.S., indicate which account by marking one of the check boxes at the bottom of the PMT screen.

For more information on IATs and handling foreign accounts in the program, see the Screen Help for the PMT screen.
If the following IRS error reject code is generated when you e-filing a 1041 return, you must contact the IRS for further information. The e-file help desk number is (866) 255-0654.

- **Reject Code 122** — The “EIN Name Control Mismatch” reject (code 122) is by far the most common e-filing error code for 1041 returns, according to the IRS. Drake has made improvements to its 1041 program to prevent returns from being rejected under this code. See the field help for the **Entity name control** box on screen 1 for details.
Index

A
accountant fees 21
accounting method
changing 39
accrual (method of accounting) 48
address
on K-1 letter heading 24
address, change of 10
allocation
of deductions to income 20
of estimated payments to beneficiaries 31
alternative
electronic signatures 46
minimum tax (AMT) 27, 48
amending
a 1041 return 10, 46
a Schedule K-1 23, 47
attachments
PDF 36
to Form 3115 39
attorney fees 21

B
bankruptcy 16
bankruptcy estates 11
beneficiary
direct entry of information for 23
distributions to noncharitable 46
estimated tax payments allocated to 31
flow of depreciation to 24
foreign 23
billing 45
bond credit 29

C
capital gains and losses
carryovers from prior years 16
cash (method of accounting) 48
Change in Accounting Method 39–41
change of name or address 10
Changes to 1041 8
charitable deductions 21
client billing 45
closure date 11
codes
error/reject 52
estimate 30
K-1 49
miscellaneous 45
multi-form 40
comparing current year to prior year 49
contact information for estate or trust 9
cover letters 24, 49
credits 27–28, 42–43
carrybacks and carryforwards 28
Ctrl+W (detail) worksheet 19

date
entity created 10
extension due 47
of closure or termination 11, 35
payment 51
shown on return 49
dates, fiscal year 10
deductible taxes 21
deductions 20–26
delay in closing estate 35
depletion
oil and gas 41
depreciation
see also Form 4562 (Depreciation and Amortization)
flowing to beneficiary 24
listing for next year 48
printing Form 4562 48
section 179 42
detail (Ctrl+W) worksheet 19
diagnostic summary reports 49
direct debit of balance due 51–52
distributable net income (DNI) 27
distribution
deduction 27
distribution deduction 22
distributions
lump-sum 27
of or from a split-interest trust 45
treated as ordinary income 19
dividend and interest income 12

E
Elections
Safe Harbor 36
elections 35
electronic
  filing (e-filing) 50–52
  funds withdrawal (direct debit) 51
  signatures (alternative) 46
  signatures (PIN) 42, 46
employer identification number (EIN) 10
envelope cover sheets 49
EP 50
ERO information, overriding 50
error codes 52
estate
  bankruptcy 11
  closed or terminated 11
  contact information for 9
  delay in closing 35
  exemptions 26
  tax deduction 26
estimated tax
  allocation to beneficiaries (Form 1041-T) 31
  payments 30
  penalty (Form 2210) 32
exemptions 26
exporting K-1 data 25
extensions
  for Form 1041 47
  for Form 1041-A 45
  for Form 5227 46
  tax paid with prior 31
F
FBAR - Report of Foreign Bank and Financial Accounts 34
fees of attorney, accountant, and tax preparer 21
fees, fiduciary 21
fiduciary
  entering information for 9
  fees 21
  information overrides 48
filing instructions 49
filing security 12
final
  1041 returns 10
  exemption 26
  K-1 schedules 23
  opening a return marked as 9
financing, seller-provided 34
firm information, overriding 50
fiscal year returns 10
foreign
  accounts, using to pay a balance due 51
  bank 34
  beneficiaries 23
  tax credit 27
Form 56 (Notice Concerning Fiduciary Relationship) 44
Form 706 (Estate (and GST) Tax Return) 21
Form 1041-A (U.S. Information Return Trust Accumulation of Charitable Amounts) 45
Form 1041-T (Allocation of Estimated Tax Payments to Beneficiaries) 31
Form 1045 (Application for Tentative Refund) 44
Form 1099-B (Proceeds From Broker and Barter Exchange Transactions) 15
Form 1099-K (Payment Card and Third-Party Network Transactions) 19
Form 1099-OID (Original Issue Discount) 19
Form 1099-PATR (Taxable Distributions Received from Cooperatives) 19
Form 1099-R (Distributions From Pensions, Annuities, etc.) 19
Form 1116 (Foreign Tax Credit) 27
Form 2210 (Underpayment of Estimated Tax by Individuals, Estates, and Trusts) 32, 48
Form 2439 (Notice to Shareholder of Undistributed Long-Term Capital Gains) 32
Form 2848 (Power of Attorney and Declaration of Representative) 44
Form 3115 (Application for Change in Accounting Method) 39–41
Form 3468 (Investment Credit) 42
Form 4136 (Credit for Federal Tax Paid on Fuels) 32
Form 4255 (Recapture of Investment Credit) 29
Form 4562 (Depreciation and Amortization) 42, 48
Form 4684 (Casualties and Thefts) 42
Form 4797 (Sales of Business Property) 18
Form 4952 (Investment Interest Expense Deduction) 20
Form 5227 (Split-Interest Trust Information Return) 45
Form 5884 (Work Opportunity Credit) 42
Form 6251, see Schedule I
Form 6478 (Alcohol and Cellulosic Biofuels Credit) 42
Form 6765 (Credit for Increasing Research Activities) 42
Form 6781 (Gains and Losses From Section 1256 Contracts and Straddles) 42
Form 7004 (Application for Automatic Extension of Time To File ...) 31
Form 8082 (Notice of Inconsistent Treatment or AAR) 44
Form 8275 (Disclosure Statement) 44
Form 8582 (Passive Activity Loss Limitations) 48
Form 8586 (Low Income Housing Credit) 42
Form 8594 (Asset Acquisition Statement - Sec 1060) 44
Form 8609 (Low-Income Housing Credit Allocation and Certification) 42
Form 8611 (Recapture of Low-Income Housing Credit) 29
Form 8801 (Prior Year Minimum Tax) 29
Form 8820 (Orphan Drug Credit) 42
Form 8821 (Tax Information Authorization) 44
Form 8822 (Change of Address) 44
Form 8824 (Like-Kind Exchanges) 42
Form 8826 (Disabled Access Credit) 43
Form 8829 (Expenses for Business Use of Your Home) 44
Form 8834 (Qualified Plug-in Electric and Electric Vehicle Credit) 43
Form 8835 (Renewable Electricity, Refined Coal, & Indian Coal Production Credit) 43
Form 8844 (Empowerment Zone and Renewal Community Employment Credit) 43
Form 8845 (Indian Employment Credit) 43
Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) 43
Form 8855 (Electron to Treat a Qualified Revocable Trust as Part of an Estate) 44
Form 8864 (Biodiesel & Renewable Diesel Fuels Credit) 43
Form 8874 (New Markets Credit) 43
Form 8879-F (IRS e-file Signature Authorization for Form 1041) 46
Form 8881 (Credit for Small Employer Pension Plan Start-up Costs) 43
Form 8882 (Credit for Employer-Provided Child Care Facilities and Services) 43
Form 8896 (Low Sulfur Diesel Fuel Production Credit) 43
Form 8903 (Domestic Production Activities Deduction) 44
Form 8910 (Alternative Motor Vehicle Credit) 43
Form 8911 (Alternative Fuel Vehicle Refueling Property Credit) 43
Form 8912 (Credit to Holders of Tax Credit Bonds) 43
Form 8941 (Small Employer Health Insurance Credit) 43
Form 8948 (Explanation For Not Filing Electronically) 44
Form 8960 (Net Investment Tax) 18, 29

distribution treated as ordinary 19
dividend income 19
interest income 19
tax withheld 32
tax-exempt 33
W-2 19
initial return 10
interest
and dividend income 12
deductions 20
split (Form 5227) 45
tax-exempt 22
IRD (in respect of a decedent) 19, 26

K
K-1
cover letters 25, 49
export 25
K1G screen 25

L
letters
K-1 cover 24, 49
long-term gains/losses 16
lump-sum distributions 27

M
methods of accounting 48

N
name
and address of beneficiary 23
change 10
of estate or trust 9
or address change 10
name control 10, 52
new features in Drake 7
next-year depreciation listing 48
nonexempt charitable trust 10

O
oil and gas depletion 41
organizers, suppressing 49
Other income 19
overpayments 30
overriding
estimate amounts 30
firm, preparer, or ERO information 50
grantor or fiduciary information 48
preparer information 45
program calculations for Sch K-1 22
program defaults 48–50

P
partial grantors 11
paying a balance due electronically 51
PDF attachments 36
percentage received by beneficiary 23
PIN (electronic) signatures 42, 46
pooled income fund 11
preparer
information, overriding 45, 50
preventing certain information from being generated 49
printing
cover letter for K-1 24
printing options for suppressing/forcing documents 48
prior-year
minimum tax 29
returns, updating 8
proformas, suppressing 49

Q
QBI deductions 12

R
recapture taxes 29
reject codes 52
resident state 10, 23
returns
amending 10, 46
final 10
initial 10
updating 8

S
Safe Harbor Elections 36
SCH (Unformatted Statement) screen 30, 35
Schedule A (Charitable Deduction) 21
Schedule B (Income Distribution Deduction) 22
Schedule C (Business Income or Loss) 12
Schedule D (Capital Gains and Losses) 15
entering AMT cost/basis on 16
entering data for 15
Schedule E (Supplemental Income and Loss) 17
Schedule F (Profit or Loss from Farming) 18
Schedule G (Tax Computation) 27
Schedule H (Household Employment Taxes) 29
Schedule I (Alternative Minimum Tax - Estates and Trusts) 27, 48
Schedule J (Accumulation Distribution for Certain Complex Trusts) 22
Schedule K-1 (Form 1041) 22–25
see also K-1
Schedule K-1 (Form 1065) 17
section
179 depreciation 42
642(c) charitable or other deductions 45
643(g) (Form 1041-T) 31
645 election 10
security
business packages 12
seller-provided financing 34
Service trade or business 14
short
-year returns 50
short-term gains/losses 16
signatures, electronic 42, 46
split-interest trusts 10, 45
SSTB 14
state
data entry 48
summary reports 49
suppressing items from return 49

t
T
tax
and payments 26–27
deductible 21
-exempt income 33
-exempt interest 22
household employment 29
paid with extension 31
penalties, estimated 32
preparer fees 21
recapture 29
withheld 32
year (fiscal vs calendar) 10
termination date 11
trust
exemptions 26
trust information for state purposes 48
type of entity, indicating 10

U
updating a prior-year return 8

W
W-2 19
W-2G 19
What’s New for 2018 7
WK_TAXEX worksheet (Worksheet for Tax-Exempt Income) 33