



SUPPLEMENT:  
**PARTNERSHIPS (1065)**

**DrakeTax**<sup>®</sup>



# **Drake Tax User's Manual**

**Tax Year 2020**

**Supplement: Partnerships  
(1065)**

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# Partnerships (1065)

*THE BASICS OF DATA ENTRY FOR A PARTNERSHIP (1065) RETURN ARE THE SAME AS FOR THE 1040. NAVIGATE THROUGH DATA ENTRY, FIELD- AND SCREEN-LEVEL HELPS, AND KEYBOARD SHORTCUTS JUST AS YOU DO IN THE 1040 PROGRAM. SEE THE 2020 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 > **SUPPORT** > **DOCUMENTS** > **MANUALS**.)*

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

Drake Tax programs its tax software according to the latest IRS rules and regulations. The 2020 program reflects all changes to credits and deductions, including discontinuations. For details on new regulations for 2020, see the IRS instructions for Form 1065.



### IMPORTANT

Be sure to review the *2020 Drake Tax User's Manual*—available from the *Support.DrakeSoftware.com* website—for details on the changes to the tax program and practice management tools.

The following changes have been made to the 1065 package in Drake Tax for the 2020 tax year:

#### **Additional e-Sign Fields**

*(For use with Drake Portals)* Screens **K1** and **PIN** have new sections designated for Drake Portals subscribers, so that partners can electronically sign returns. To override the choice of a signing partner (on screen **K1**), use the override fields on the **PIN** screen.

## Associating QBI Info.

To better associate QBI information with its corresponding forms, the **QBI** section at the bottom of screen **1** has been removed, as has the **For** drop list on screen **199A** for associating QBI information. QBI relating to the main page of Form 1065 must now be entered on screen **199A** (accessible from the **Other Forms** tab of the **Data Entry Menu**) instead of screen **K199**. Continue to use the **K199** screen to report QBI information for screens **K1P** and **K1F**.

## Business Identity Theft

Form 14039-B, Business Identity Theft Affidavit, has been added to Drake Tax 2020.

Complete and submit Form 14039-B if the partnership suspects that it has been a victim of identity theft.



### NOTE

If the partnership never applied for an Employer Identification Number (EIN) but has begun receiving notices in its name, do *not* complete this form. Instead, file Form 14039, Identity Theft Affidavit, under the Social Security Number (SSN), Individual Taxpayer Identification Number (ITIN), or Adoption Taxpayer Identification Number (ATIN) of the taxpayer in charge of the partnership.

Complete Form 14039-B from screen **1403** (available from the **Miscellaneous** tab of the **Data Entry Menu**). Forms 14039 and 14039-B are both available for printing from **Tools > Blank Forms**.

## e-Filing Forms 7004

Multiple Forms 7004 with the same ID number can now be e-filed in Drake Tax. This stops “dupe” rejects for duplicate transmissions. From the **7004** screen (accessible from the **Other Forms** tab of the **Data Entry Menu**), select the appropriate return type from the **Enter the form code...** drop list, and calculate and file the return as normal. To file another extension, select the other form (either 1065 or 8804) from the same drop list, recalculate the return, and submit *only* the applicable Form 7004.

After transmission, each submission will appear on a separate line of the **ESUM** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**) with the appropriate form code.

## Global Autobalance Feature

Instead of having to turn off the autobalance feature of Schedule L for each return, Drake Tax has implemented a *global* autobalance feature that acts as a toggle, allowing you to always (or never) adjust automatically the capital account on Schedule L by the difference between the total assets and the total liabilities and capital/equity.

For more information, see “Autobalance” on page 62.

## Paycheck Protection Program

Eligible business expenses paid by the partnership with funds from a Paycheck Protection Program (PPP) loan can now be deducted even if the loan has been forgiven.

## Prior-Year Income Required

In prior years, entries on screen **SEC** (Filing Security Information) were optional. For Drake 2020, to better protect the partnership from taxpayer refund fraud, the partnership's **Total prior year income amount** is *required*. Enter this amount on screen **SEC**.

See “Required Security Information” on page 76 for further information.

### **Schedule K-1 Codes**

The IRS has discontinued page 2 of Schedule K-1 for Form 1065. The K-1 codes that were on page 2 are now in the Schedule K-1 instructions, but these codes can still be generated in Drake Tax.

Instead of producing the entire K-1 code sheet, however, Drake Tax now generates only those codes that actually appear on each Schedule K-1 in the partnership return. These codes are printed on the “Supplemental Information” page that is generated with each K-1, and reference the page in the K-1 instructions where further information can be found.

For more, see “Schedule K-1 Codes” on page 50.

### **Tax Basis Required**

Beginning with tax year 2020, the IRS requires all federal 1065 returns to use the tax basis method for reporting partners' capital on section L of Schedule K-1; states, however, are not bound to this mandate. For this reason, Drake Tax has added two new sections to the **PRNT** screen: one for reporting alternate methods if reporting item L information on an applicable *state's* Schedule K-1, and another for selecting other methods used on prior-year federal 1065 returns. If the tax basis was *not* used as the partnership's capital method in prior years, make the appropriate selection on the **PRNT** screen, and Drake Tax adjusts the partner's beginning capital account amount to the tax basis equivalent.

For additional details, navigate to “K-1 Items” on page 74.

## **Completing a 1065 Return in Drake Tax**

The basics of data entry for a partnership (1065) return are the same as for the 1040. See the *2020 Drake Tax User's Manual* for the basics of using the program, or log in to *DrakeETC.com* to view online tutorials and webinars designed to teach new users all aspects of data entry in Drake Tax.

## **Updating a Prior-Year Return in Drake Tax**

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

- *(recommended)* As a *single* return (updated one at a time) using **Last Year Data > Update Clients 2019 to 2020**
- When you open the return for the first time in the 2020 program and are prompted to update it
- *(not recommended)* With *all other* returns in the program using **Last Year Data > Update Clients 2019 to 2020**

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

For more details on updating prior-year returns, see “Updating Client Files” in Chapter 4 of the *2020 Drake Tax User's Manual*.

## Header Information

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

## Name and Address

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

Screen Code: **2**

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

### “Doing Business As”

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

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

The **DBA** can also serve as a continuation line for entity names that are too long to fit into the **Partnership's legal name** field. Be aware, however, that not all federal forms accept data from a continuation (or DBA) line. For those forms, only the data entered in the legal name field is used.

### NOTE



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

## Tax Year

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

### NOTE



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

### Fiscal and Calendar Years

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

### 52-53-Week Tax Year

For information on electing a 52-53-week tax year, see “Electing a 52-53-Week Year (Initial Return)” on page 79.

### Short-Year Returns

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

Screen Code:  
**YEAR**

Short-year return election information and 52-53-week tax year information is entered on the **YEAR** screen, available on the **Miscellaneous** tab of the **Data Entry Menu** or by clicking the **Year** link in the **If Not Calendar Year** section of screen **1**.

To enter short-year information:

1. Enter short-year dates on screen **1** in the **Fiscal year beginning** and **Fiscal year ending** fields, even if the firm uses the calendar year for full-year returns. (These dates will appear on the top of the federal form.)
2. Click the **Year** link (Figure 1) to open the **YEAR** screen. On the **YEAR** screen, make your short-year selection from the **Other short-year reason** drop list.

Figure 1: Link to the **YEAR** screen from screen **1**

3. If you selected **General Explanation** from the **Other short-year reason** drop list, type details on the reasons for filing a short-year return in the **Explanation** text box. (Your explanation will be displayed at the top of the first page of the main form.)

For information on making elections through the **ELEC** screen, see “Elections” on page 71.



## NOTE

Drake Tax may incorrectly calculate depreciation, gains, or losses for short-year returns. Values for these fields may be manually entered on screens **6**, **7**, **8**, **9**, and **4562**.

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

## Boxes A through K

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

- Box A — Principal business activity
- Box B — Principal product or service
- Box C — Business code number (Press CTRL+SHIFT+S to search activity codes)
- Box E — Date business started
- Item G — Initial, final, name change, address change, or amended return
- Item H — Accounting method (Select **Cash**, **Accrual**, or **Other** on screen **1**; if **Other**, enter a description of the method used.)

- **Item K** — Additional activity information (If applicable, select **Aggregated activities for section 465 at-risk purposes** or **Grouped activities for section 469 passive activity purposes** on screen **1**.)

## Other Information and Overrides

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

- **Resident State** — If the partnership has a mailing address in one state but does business in another, use the **Resident state** drop list to select the state in which the partnership does business.
- **Drake Codes and Overrides** — For information on miscellaneous codes, invoice numbers, and override fields, see the following sections of the *2020 Drake Tax User's Manual*:
  - “Listing a Different Firm, Preparer, or ERO on a Return,” in Chapter 2, “Installation & Setup.”
  - “Miscellaneous Codes,” in Chapter 5, “Return Preparation.”
- **Entity Name Control** — Use this field only if your client has obtained a Name Control from the IRS.

## Income and Deductions

Enter income and deductions on the **INC** (Income) and **DED** (Deductions) screens. **INC** screen amounts flow to Form 1065, page 1, lines 1a to 7. (Also see “Other Income (Loss)” on page 18.) Amounts from screen **DED** flow to Form 1065, page 1, lines 9 through 20.

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

## Gross Receipts

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



### NOTE

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

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

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

### Inventory

Inventory amounts entered on lines 1 and 7 of screen **A** automatically flow to Schedule L (Form 1065), line 3, “Inventories.” Note that the “Inventories” lines on screen **L**



(Schedule L - Balance Sheet) are override fields; inventory data entered in these fields override data entered in fields 1 and 7 on screen **A**.

### Line 5, Other Costs

Line 5 of Form 1125-A is designated for any applicable costs not entered on the previous lines. In Drake Tax, two fields on screen **A** are provided for line 5: one for other costs including depreciation and one for other costs excluding depreciation, as seen in Figure 2.

Figure 2: Line 5 data entry fields for Form 1125-A

In the **Other costs - depreciation** field, enter any depreciation that relates to the cost of goods sold (unless the amount is already entered on screen **4562** with **COGS** selected from the **For** drop list). Note that this field on screen **A** is an override field; an entry here overrides the calculations computed using the **4562** screen and automatically adjusts the total depreciation that flows to page 1 of Form 1065. Make an entry in the **Other costs - excluding depreciation** field to open a detail worksheet (CTRL+W). Enter a **Description** and an **Amount** for each item. The total depreciation amount is broken down on a Federal Supporting Statement for Form 1065 (Schedule 5 — Line A).

### NOTE



Line **16b** on the **DED** screen is an adjustment field for depreciation amounts that flow from Form 4562. No entry is required for depreciation amounts that flow from screen **A**.

### Importing Trial Balance to Sch A

If using the trial balance import feature (see “Importing Trial Balance Information” on page 84), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* in data entry of Drake Tax. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly. For more on depreciation and trial balance import, see “Depreciation” on page 93.

## Ordinary Income (Loss)

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

## Net Farm Profit (Loss)

Screen Code: **F**

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

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

## Net Gain (Loss)

The amount on line 6, "Net gain (loss) from Form 4797, Part II, line 17," of Form 1065 flows from screen **4797**, available from the **Assets-Sales-Recapture** tab of the **Data Entry Menu**. Amounts can also flow from screen **4562**, but only if a selection has been made from the **Property type** drop list and assets are entered in the **If sold** section. Do *not* duplicate amounts entered on screen **4797** with those entered on screen **4562**.

## Other Income (Loss)

Use the **INC** screen to enter amounts for line 7, "Other income," of the main form. Specific **INC** screen entries are displayed on attached statements in View/Print mode of the return.

Amounts from the following screens also flow to line 7:

- Screen **6478** — Form 6478, Biofuel Producer Credit
- Screen **8864** — Form 8864, Biodiesel and Renewable Diesel Fuels Credit

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

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

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

Enter other income (loss) from a partnership, estate, or trust on the **K1P** or **K1F** screen. Access these screens by clicking the links beside line 4.

## Compensation and Wages

Use the **DED** screen to enter wages and salaries paid—line 9 of Form 1065. Do not include guaranteed payments to partners or salaries or wages reported elsewhere in the return, such as the amounts included in COGS, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement. Drake Tax automatically adjusts salary and wages for employment credits.

## Guaranteed Payments and Partner Health Insurance

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

### Guaranteed Payments

To report guaranteed payments to partners:

- Enter *total* guaranteed payments on screen **DED**, line 10.
  - An entry on line 4a or 4b of screen **K** adjusts (adds to or subtracts from) the amounts entered on the **DED** screen. Guaranteed payments to partners can also be reported on screens **RENT** and **8825**.
  - To allocate the total guaranteed payments among the partners, click the **SA** link to the right of lines 4a and 4b on screen **K**. (For details on using the **SA** screen, see “Special Allocations” on page 37.)



### NOTE

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

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

### Partner Health Insurance

To report partner health insurance:

- In the **Partner's health insurance** field on the **DED** screen, line 10, enter amounts paid during the tax year for health insurance by a partnership on behalf of a partner for services as a partner (including a partner's spouse or dependents or children under age 27 who are not dependents).
  - An entry on line 13d, item M, **Amount paid for medical insurance**, on the **Deductions** tab of screen **K**, overrides the amount entered on the **DED** screen and the **8825** screen (**Health insurance payments**).
  - To allocate the total amount of health insurance costs among the partners, click the **SA** link to the right of line 13d, item M, on the **Deductions** tab of screen **K**. (For details on using the **SA** screen, see “Special Allocations” on page 37.)

Health insurance entries flow to boxes 4 and 13 of the partners' Schedule K-1, line 13d of Schedule K (Form 1065), and line 10 of Form 1065.

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

## Repairs and Maintenance

Use line 11 on the **DED** screen to enter the costs of repairs and maintenance. See Form 1065 instructions for IRS requirements regarding costs that can be entered here.

## Bad Debts

Use line 12 of the **DED** screen to enter the total of all bad debts that became worthless during the 2020 tax year *only* if these debts are related to a trade or business activity. Deductible non-business bad debts should be entered as short-term capital losses (with **S** selected from the **Type of gain or loss** drop list) on screen **8949**.



### NOTE

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

## Rents

Use line 13 of the **DED** screen to enter rent paid on business property used for a trade or business activity. If the partnership rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the partnership, and then complete Part V of Form 4562 (screens **8** and **9**, both accessible from the **Assets-Sales-Recapture** tab of the **Data Entry Menu**).

## Taxes and Licenses

Use line 14 of screen **DED** to enter tax and license payment data. Amounts entered here flow to the "Taxes and licenses" line of Form 1065, and to the "Wks Tax/Lic" worksheet in View/Print mode, and is referred to on line 14 with the literal "Wks Tax/Lic" reference..



### NOTE

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

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

Note that amounts entered in the fields **St/City income** and **franchise taxes** on the **Detail** screen of line 14 (screen **DED**) override amounts entered on the **ES** screen.

## Interest

The "Interest" line (15) of Form 1065 refers only to the interest incurred by the partnership in a trade or business activity that is not claimed elsewhere in the return.

Use line 15 of the **DED** screen to enter interest expense amounts. Do not include interest expense on the following:

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

## Self-Charged Interest

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

To include the statement:

Screen Code:  
**ELEC**

1. Click the **ELEC Screen** link beside line 15 on screen **DED**. (The **ELEC** screen is also available from the **Miscellaneous** tab of the **Data Entry Menu**.)
2. In the **Election** drop list, select **19 - Not Apply Alternative Treatment to Self-Charged Items**.

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



## NOTE

Use of the **ELEC** screen for statement purposes does *not* make the return ineligible for e-file.

Figure 3: Self-charged interest statement

Forms to View/Print

ms Sets EF Federal Worksheets Notes/Messages North Carolina Oregon

MESSAGES  
MESSAGES  
Notes Page  
1065EF  
Form 1065  
Form 1065 pg 2  
Form 1065 pg 3  
Form 1065 pg 4  
Form 1065 pg 5  
Form 8825  
Form 8825 - Attachm  
Form 1125-A  
Schedule K-1 (Chili C  
Schedule K-1 (Spong  
Schedule K-1 (Sandy  
Schedule K-1 - Code  
Schedule B-1  
Form Rent  
Statement 01  
Statement 02  
Statement 09  
Statement 14  
Statement 18c  
Statement 15  
Statement 8A  
Statement 8B  
Statement EL19  
Overflow  
Wks Tax/Lic

**Federal Supporting Statements**

2020 PG01

Named(s) as shown on return  
**Partners Forever**

Employer Identification Number

Statement #EL19

**Election to Not Apply Alternative Treatment to Self-Charged  
Items of Interest Income and Deduction**

Pursuant to Regulation Section 1.469-7(g), the Partnership hereby  
elects to not apply the alternative self-charged interest rules for  
the tax year ended 05-21-2020, and all subsequent years.

The Partnership referred to in this paragraph is:  
Name: Partners Forever  
Address: 1 Besties Lane  
City: Franklin  
State: NC  
ZIP: 28734  
EIN: XXXXXXXX

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

## Depreciation

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

### Using the DED screen

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

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

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

## IMPORTANT



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

For more information on depreciation and the **4562** screen, see the *2020 Drake Tax User's Manual*.

## Line 16, Depreciation

Line 16 of Form 1065 is reserved for depreciation that (1) is from Form 4562 and (2) is claimed elsewhere. While the program pulls data from the **4562** screen for this line, it also provides field **16b** (Figure 4) on screen **DED** specifically for depreciation that is claimed elsewhere.

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

Figure 4: Depreciation line 16 fields from **DED** screen

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

- **Line 16a** — An entry here is added to the depreciation from the **4562** screens. The amount on line **16a** is *not* reflected on Form 4562.
- **Line 16b** — Drake Tax recommends using screen **A** (rather than the **DED** screen) to enter depreciation claimed on Form 1125-A. An entry on line 5, **Other costs - depreciation**, of screen **A** adjusts any entry on line **16b** of the **DED** screen and is calculated into the total deductions on Form 1065. (An entry in the **Other costs - depreciation** line on screen **A** also overrides calculated amounts for entries on **4562** screens when the **For** drop list is set to **COGS**.) If there is an entry on line **16b** of the **DED** screen but not screen **A**, only the line **16b** amount is calculated into total deductions.



## NOTE

Section 179 expenses do not flow to the depreciation lines (16a and 16b) on page 1 of Form 1065; applicable expenses are reflected on Schedule K, "Net long-term capital gain," and then distributed to each partner on Schedule K-1.

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

For information on allocating Section 754 depreciation to specific partners, see "Special Allocations" on page 37 and "Section 754 Allocations" on page 56.

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

## Reclassify to Amortization

To reclassify an asset from depreciation to amortization:

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

## Depletion

Enter depletion amounts on line 17 of the **DED** screen. If the partnership claims a deduction for timber depletion, complete and attach Form T, Forest Activities Schedules, available from the IRS website. (Attach this form as a PDF document to e-filed returns. See “The PDF Attachment Process” on page 81.) Do not deduct depletion for oil and gas properties. Depletion should be figured for each partner on screen **DEPL**, accessible from the **Other Forms** tab of the **Data Entry Menu**. See “Oil and Gas Depletion Worksheet” on page 45 for more on entering oil and gas depletion in the 1065 package.



### NOTE

The Depletion Worksheet in the Partnership package is for informational purposes only. Depletion is calculated in the partner's individual return.

## Retirement Plans

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



### NOTE

The amount for line 18 of Form 1065 may be altered due to the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs. Amounts for Form 8881 are entered on screen **8881**, accessible from the **Credits** tab of the **Data Entry Menu**.

### IRA for Employees

If the partnership contributes to an IRA for employees, include the contributions in salaries and wages on either the **DED** screen (line 9, **Salaries and wages**) or screen **A** (**W-2 wages paid**).

### Payments to Partners

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

## Employee Benefit Plans

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



### Amounts Paid for Medical Care

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

### Pub. 541

IRS Pub. 541 states that "[p]remiums for health insurance paid by a partnership on behalf of a partner, for services as a partner, are treated as guaranteed payments." The partnership can deduct these payments as a business expense, and the partner must include them in gross income. The partnership *cannot* deduct the premiums, however, if the partnership accounts for insurance paid for a partner as a reduction in distributions for that partner. For instances such as this, go to the **K1** screen for the partner and mark the **Health insurance distribution reduction** check box (line 13M) at the bottom of the screen.

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

## Other Deductions

Enter all other deductions on line 20 of the **DED** screen. Drake Tax calculates these amounts and incorporates the total into "Other deductions," line 20, of Form 1065.

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

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

## Tax and Payments

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

Use the **TAX** screen to report the following Form 1065 data:

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



## NOTE

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

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

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

- **Line 24** — “Interest due under the look-back method - income forecast method”: Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method, is used to figure the interest due or to be refunded under the look-back method of section 167(g)(2) for property placed in service after September 13, 1995 that is depreciated under the income forecast method as described in section 167(g).

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

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

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

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

Ogden Service Center  
Ogden, UT 84201-0011

Payments can also be made electronically.

- **Line 26** — “Other taxes”: In a few rare instances, payments other than those listed above may have to be made with Form 1065. Enter a description of these payments and the amounts being paid in the **Description** text boxes on line 26 of screen **TAX**. In View/Print mode, “Statement TAX” lists these other taxes.
- **Line 28** — “Payment”: Enter on this line any prepayments related to lines 23-26 above. Data entered here adjusts an amount entered on the **7004** screen for payments made with the extension.

## Filing an Extension

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

Calendar-year returns are due on March 15, 2021. By filing Form 7004, a partnership can extend the deadline six months to September 15, 2021. Fiscal-year returns are due on the fifteenth day of the third month after the end of the fiscal year.

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

- Go to the **7004** screen (**Other Forms** tab of the **Data Entry Menu**) and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen (**Miscellaneous** tab of the **Data Entry Menu**) and select **Prepare a Form 7004 extension**, located under the **Other Return Options** section.

## Signing the Return

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

### “Signs Return” Partner

If the **Signs Return** check box was selected for one of the partners on a **K1** screen, entries for that partner’s **ID number**, **Title for Pin Signature**, **Name**, and **Phone number** on screen **K1** will be included with the **ERO PIN**, **Partner PIN**, and **Signature date** entries on the **PIN** screen—the **ERO PIN**, **Partner PIN**, and **Signature date** must still be entered on the **PIN** screen in order to e-file the return. If the **Signs Return** check box is *not* marked on any **K1** screen, then the **ERO PIN**, **Partner PIN**, **Signature date**, **Title**, and **Signature** fields on the **PIN** screen must be completed manually.

### Preparer’s Signature

If the return is prepared by a paid preparer, the preparer must complete the required information and sign the return in the space provided on the **PIN** screen. If the return

is prepared by a partner or an employee of the partnership, open screen **1** and select **NONE** from the **Firm #** and **Preparer #** drop lists.

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

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



## IMPORTANT

**Setup > Electronic Filing & Account Information (ERO)** must be completed in Drake Tax in order to e-file returns. For information on how to complete this setup window, see *2020 Drake Tax User's Manual*. See the IRS instructions for further details on signature requirements.

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

## Form 8879-PE

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

To generate the filing instructions for Form 8879-PE, do one of the following:

- From the **Home** window of Drake Tax, go to **Setup > Options > Client Communications** tab, and set the program to print the filing instructions for all returns by selecting **Always print** from the **Federal** (and **State**, if desired) drop list under the section **Filing Instructions**.
  - Alternately, mark the check box **Print filing instructions for federal Forms 8878 and 8879** if you want only federal e-file authorization instructions to be printed.
- With an open return, from the **PIN** screen select **Yes** from the **Print filing instructions for Form 8879** drop list. The instructions will be printed for the current return only; use this method to print instructions on a per-return basis.

For information on using an electronic signature pad to digitally sign Form 8879-PE, see "Electronic Signatures" in Chapter 6, "Return Results," of the *2020 Drake Tax User's Manual*.

## Amending a Return



### CAUTION

When you amend a return in Drake Tax, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data.

For more information on archiving returns, see "Archive Manager" in Chapter 6, "Return Results," of the *2020 Drake Tax User's Manual*.

To file a 1065 return that has been amended:

1. Go to screen **1** in data entry, and select **Amended return** in section **G**.
2. Make changes as applicable to forms and schedules.
3. Go to the **EF** screen and select **Amended 1065** in the left-hand column.
4. Go to the **SCH** screen (available from the **Miscellaneous** tab of the **Data Entry Menu**) and complete the following fields:
  - **Statement number** — Select **011 - Amended Return Statement**.
  - **Title** — Enter a statement title of 28 or fewer characters.
  - **Explanation text box** — Identify the amended items by line number and explain what was changed and why.

If amending just the K-1s, go to each **K1** screen, select **Amended K1** in the upper-right corner, and make the necessary changes.



### NOTE

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

## TEFRA and Filing Eligibility

A partnership subject to the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) audit rules cannot file an amended Form 1065 to correct a partnership item reported on a previously filed return, but according to these rules, the partnership representative (PR) must file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request, on the partnership's behalf and request the IRS treat the Form 8082 as a substituted return.

A partnership qualifying as a small partnership (see Section 6231(a)(1)(B))—with 10 or fewer partners at any one time during the year—is exempt from the TEFRA audit rules and can file an amended Form 1065 and corrected K-1s to partners.

## Additional Information

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



### NOTE

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

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

The program has five screens for entering data for Schedule B (Form 1065), Other Information, Schedule B-1 (Form 1065), Information on Partners Owning 50% or More of the Partnership, and Schedule B-2 (Form 1060), Election Out of the Centralized Partnership Audit Regime. Data entry for the above form and schedules is separated into several screens and entered in the following locations:

- **Screen B (Schedule B tab)** — For lines 1 through 20 (excepting lines 2 and 3)
- **Screen B (Schedule B, cont. tab)** — For lines 21 through 28 (excepting line 26)
- **Screen B1** — For lines 2a and 2b of Schedule B-1 (foreign ownership of the partnership). Much of the data on Schedule B-1 flows from entries on each partner's **K1** screen. See “Schedule B-1 Information” on page 30.
- **Screen B2** — For Schedule B-2: electing out of an audit regime and listing shareholders in an S corporation that is a partner in the partnership. See “Electing Out of Centralized Partnership Audit Regime” on page 33.
- **Screen B3** — For lines 3a and 3b of Schedule B (ownership of foreign companies by the partnership).

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

## Schedule B-1 Information

Enter the required Schedule B-1 information—**Type of Partner, Country of Incorporation/Organization**, and **Max Percentage Owned** in Profit, Loss, or Capital—on each partner's **K1** screen. (This information can also be entered on the **B1** screen.)

When you make a selection from the **Country of Incorporation/Organization** drop list in the **Schedule B-1** section of a **K1** screen (Figure 5) and then make an entry in the **Max Percentage Owned** field, the program automatically answers questions 2a and 2b of Schedule B and produces Schedule B-1, using the information entered on the **K1** screen—**Name, ID number, Type of Partner**—to complete Parts I or II (as appropriate).

**Figure 5:** Entering the circled questions on screen **K1** produces Schedule B-1 automatically

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

### Foreign Ownership

If the partnership owned (directly) an interest of 20 percent or more or owned (directly or indirectly) 50 percent or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation, use the **Line 3a** section of screen **B3** to enter the **Name of Corporation, EIN, Country of Incorporation, and Percentage Owned in Voting Stock**. (From the **B** screen, click the **Attachment 3a and 3b** link beside line 3, or click **B3** from the **Data Entry Menu**.)

Screen Code: **B3**

If the partnership owned (directly) an interest of 20 percent or more or owned (directly or indirectly) an interest of 50 percent or more in profit, loss, or capital in any foreign or domestic partnership or in the beneficial interest of a trust, use the **Line 3b** section of screen **B3** to enter the **Name of Entity, EIN, Type of Entity, Country of Organization, and Maximum Percentage owned in Profit, Loss, or Capital**.



### NOTE

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

### Line 4 Requirements

If question 4, **Does partnership meet all requirements listed for question 4 of Form 1065**, on screen **B** is answered **Yes**, Schedules L, M-1, M-2, and Section L of Schedule K-1 are *not* required and therefore not printed. The four conditions that must be met in order to answer **Yes** to this question are:

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

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

For more on line 4, see "Schedule L (Balance Sheets Per Books)" on page 58.



## Partnership Representative

Partnerships must appoint a “partnership representative.” The partnership representative (PR) does not have to be a partner in the partnership but does have to possess a U.S. taxpayer ID number (TIN), and the address of the representative must be a U.S. address. A PR is indicated by marking the **PTR REP** check box (Figure 6) on the appropriate **K1** screen, or by completing the **Designation of Partnership Representative** section on the **Schedule B, cont.** tab of screen **B**. The representative's information is printed at the bottom of page 3 of Form 1065.

Figure 6: Designating a partnership representative on screen **K1**

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

The Drake Tax program does not select a PR if one is not indicated on screen **K1** or the **Schedule B, cont.** tab of screen **B**. An EF Message is generated, stopping e-file until a selection of a representative is made.

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

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



## NOTES

- If an entity and not an individual is selected as the Partnership Representative on a **K1** screen, additional data will be required in the **Designation of Partnership Representative** section of the **Schedule B, cont.** tab of screen **B**.
- To change or revoke a previously selected partnership representative, the partnership must file Form 8979, Partnership Representative Revocation, Designation, and Resignation Form. Drake Tax does *not* generate this form with the return; it must be downloaded from the IRS website, printed, completed, and attached to the return as a PDF. To learn how to upload and attach documents to a return, see “PDF Attachments” on page 81.



## Reporting Limitation on Business Interest Expense

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

Screen code:  
**8990**

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

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

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

A “small business taxpayer” is a taxpayer that is not a tax shelter and has average annual gross receipts of \$26 million or less for the three prior tax years under the gross receipts test.

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

## Electing Out of Centralized Partnership Audit Regime

Question 25 of Schedule B (available on the **Schedule B, cont. tab**) asks if the partnership is electing out of the centralized partnership audit regime. If the answer is **Yes**, then Drake Tax generates Schedule B-2, Election Out of the Centralized Partnership Audit Regime, listing all partners in the partnership based on the information provided on the **K1** screens in the program. (If any of these partners is a partnership, however, or if the partnership has more than 100 partners, the partnership cannot elect out of the centralized partnership audit regime and is ineligible to use Schedule B-2.)

Screen Code: **B2**

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

If the answer to question 25 is “No,” Drake Tax completes the “Designation of Partnership Representative” section at the bottom of Schedule B automatically, based on the **K1** screens included in the return. (Information on the partnership representative

also can be entered on the **Schedule B, cont.** tab of screen **B** in the **Designation of Partnership Representative** section.)

## Forms 8996 and 8997, Qualified Opportunity Funds

Section 1400Z-2 provides partners investing eligible gains in Qualified Opportunity Funds (QOF) the option to “defer recognition of certain gains.”

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

*Screen code: 8996* See Form 8996 and its related instructions for more information.

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

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

## Form 8832, Entity Classification Election

Form 8832, Entity Classification Election, is used by a business entity to elect how it will be classified for federal tax purposes—as a corporation, a partnership, or an entity disregarded as separate from its owner. An eligible entity is classified for federal tax purposes under the default rules unless it files Form 8832 or Form 2553, Election by a Small Business Corporation. The IRS uses the information entered on this form to establish the entity’s filing and reporting requirements for federal tax purposes.

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

## State-Specific Information

**Resident State** The program automatically generates a return for the partnership’s resident state. Use screen **2** (accessible from the **States** tab of the **Data Entry Menu**) to enter company information as it should appear on the state return.



### NOTE

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

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

### Contact Information

If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2** for the alternative data for **Registered Office**, **Principal Place of Business**, **"Books in care of,"** and general **Contact Information** for the partnership's contact person.

### Other States

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

### Multi-State Apportionment

Enter sales, payroll, and property factors on the **APPT** (Multi-State Apportionment) screen, accessible from the **States** tab. This screen (Figure 7 on page 35) provides one central location for entering all state apportionment information instead of having to open each needed state's screen.

The screenshot shows the 'State Apportionment - Sales Factor' screen. At the top, there are four tabs: 'Sales', 'Payroll', 'Property', and 'Additional Property'. The 'Sales' tab is selected. Below the tabs, there are three dropdown menus for 'State Selection' with values 'NC', 'AK', and 'FL'. To the right of these is a 'Required field' checkbox. Under the heading 'Zero Apportionment - No Activity in State', there are three checkboxes corresponding to the states. The checkbox for 'FL' is checked. Below this, there are input fields for 'Sales', 'Returns and Allowances', and 'Throwback (nontaxable jurisdiction)' for each state. A red circle highlights the 'Zero apportionment' checkbox for 'FL', and a red arrow points to it from a label 'Zero apportionment'. Another red circle highlights the 'APPT screens' label, and a red arrow points to it from a label 'APPT screens'.

Figure 7: APPT (Multi-State Apportionment) screen

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

Individual state apportionment screens are still available in Drake20; however, entries on these screens override state data entered on the **APPT** screen.



### TIP

Mark the **Zero Apportionment** check box (Figure 7) to add a state but not include any apportionment data. This will include the state

on the apportionment summary worksheet ("Wks SA-SUM"), available through View/Print mode.

**APPT Screens** The **APPT** screen is opened to the **Sales** tab. Links at the top of this screen take you to the **Payroll**, **Property**, and **Additional Property** tabs for each state selected (Figure 7). These screens and their uses are listed in Table 1.

**Table 1: APPT Screens**

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



## NOTE

The **Ending** amount entered on the **Property** and **Additional Property** tabs in 2019 becomes the **Beginning** amount when the client's return is updated in Drake20.

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

Select **OT - Other Reconciliation** from the **State Selection** drop list on the **Sales** tab when using the reconciliation worksheet. As not every item appearing on the federal return may be subject to multi-state apportionment, when you select **OT**, the data entered becomes a reconciling adjustment amount to aid in tying to the federal return.

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

## Schedule K (Partners' Distributive Share Items)

Use the **K** screens to enter data for Schedule K (Form 1065), Partners' Distributive Share Items.



## NOTE

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

Screen **K** is a “tabbed” screen with separate tabs (circled in Figure 8 on page 37) for data entry of **Income (Loss)**, **Deductions**, **Credits**, **AMT** and basis, and **Other Information**. There is also a tab for **Analysis of Net Income**.

**K - Partners Distributive Share of Income (Loss) and Self-Employment**  
Click the SA links to complete special allocations by partner using dollar amounts or percentages.  
Special allocations for rent can be completed per property on the 8825 and RENT screens.

1	Ordinary business income (loss).....		SA
2	Net rental real estate income (loss).....	Form 8825	SA
	Disposition of property from rental real estate activities (8825, line 19).....		SA
	Net rental real estate income (loss) from pass-through entities (8825, line 20a).....		SA
3c	Other net rental income (loss).....	RENT Screen	SA
4a	Guaranteed payments for services.....	+/- 8367	SA
	Portion of 4a allocated for other than services and not subject to SE tax.....	+/- 753	SA
4b	Guaranteed payments for capital.....	+/- 9178	SA

Figure 8: Screen **K** is tabbed (tabs circled at the top of the screen)

Each of the tabs includes “Other” items such as “Other” income and “Other” deductions, etc., allowing a detailed supplemental K-1 statement (Figure 9). This statement is attached to the partner’s Schedule K-1.

Schedule K-1 Supplemental Information		2020 PG01
Partner's name: Sue Smith		Partner's ID Number:
Name of Partnership: Fawltz Towers LLC		Partnership EIN:
<b>Line 11 - Other Income (Loss)</b>		Statement #99
<b>Code Description</b>	<b>Amount</b>	
I Recoveries of tax benefit items (Section 111)	10	
I Gain(loss) from sale of QSB stock eligible for Sec.	319	
<b>Total</b>	<b>329</b>	
<b>Line 13 - Other Deductions (Loss)</b>		
<b>Code Description</b>	<b>Amount</b>	
I Deductions - royalty income	1,490	
R Pensions and IRAs	55	
W Section 754 depreciation/amortization	4,040	
W Contributions to a capital construction fund	70	
<b>Total</b>	<b>5,655</b>	

Figure 9: Detailed statements with Schedule **K** “Other” items

## Special Allocations

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

For example, in Figure 10 on page 38, the calculated allocation to the partners of **Ordinary dividends** (line 6a of screen **K**, item #1) of \$123,342, is being overridden by **Dollar Amount** (#2). As the allocations are entered in the **Dollar Amount** column, the program shows the **Percentage** of the total that equals the dollar amount allocated

(#3). The program also keeps a running total of the allocated amounts and the amounts yet to be allocated (#4). To change from allocation by dollar amount to allocation by percentages, select **Percentage** (#5).

Special allocations can be entered using a dollar amount or percentage. Unallocated amounts will be distributed to remaining partners based on a pro-rata calculation of partner's percentage entered on the K-1 screens.

Allocation: ☒ Dollar Amount ☐ Percentage

SSN / EIN	Individual/Entity Name	Dollar Amount	Percentage
40	William Carter	20557	16.6666667
40	Amelia Carter	20557	16.6666667
81	Fred's Fiduciary	20557	16.6666667
22	Milo Mindbeender	20557	16.6666667
40	Seay's Trucking	20557	16.6666667
40	Ess Bee Ess	20557	16.6650452

Unallocated: \$2 Allocated: \$123340

Clear Save Cancel

Figure 10: Special Allocations (SA) screen



## NOTES

- When the return is calculated, any amounts remaining unallocated is allocated to the partners based on pro rata calculations of partners' percentage as entered on screen **K1**. Enter "0" (zero) in the **Max Percentage Owned** field on screen **K1** to remove the selected partner from the pro rata distribution calculation.
- Section L, "Partner's Capital Account Analysis," of the Schedules K-1 is recalculated based on the overrides entered on the **SA** screen.

When you click an **SA** link from screens **199A**, **K**, **L**, **M1**, **M2**, **M32**, or **M33** to make a special allocation, and enter an amount or percentage on that **SA** screen, the screen link on the original **199A**, **K**, **L**, **M1**, **M2**, **M32**, or **M33** screen changes color (Figure 11), making it easier to find those items that have been overridden.

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

For more on the "Other" fields of screen **M1**, see "Other Adjustments" on page 63.

RENT Screen

+/- 8367 SA

+/- 753 SA

+/- 9178 SA

+/- SA

+/- SA

+/- SA

+/- 768 SA

Figure 11: SA links change color when entries have been made on the SA screen

## Partners' Capital Analysis

From screen **M2**, click and use an **SA** link to reconcile Schedule M-2 (Form 1065), Analysis of Partners' Capital Accounts, to the "Partner's Capital Account Analysis" in section L of Schedule K-1.

## Property Distributions

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

## 3468 Amounts

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



## NOTES

- Do not use **SA** screens for entering amounts on Schedule K.
- **SA** screens cannot be used for any Schedule K line with a zero ("0") balance.

## Passing Through QBI Information

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

*Partnerships* are not eligible for the QBI deduction; instead, they must pass the necessary information through to their *partners*. The IRS requires that all partners taking a section 199A deduction attach a statement, identifying each trade or business with a breakdown in cost of said deductions. Drake Tax automatically produces this statement for each partner, known as Statement A - QBI Pass-through Entity Reporting ("K-1 Wks QBI" in View/Print mode).

So that you can report the above information, Drake Tax has included in the 1065 package screens **199A** and **K199**; use screen **199A** to associate QBI information with Form 1065 or screen **K199** to tie QBI data with screens **K1P** or **K1F**. Any data entered on screen **199A** flows to the Qualified Business Income Information (QBI) worksheet, where screen **199A** data is compared to the program-calculated QBI amounts—be sure to mark the **Check this box to override 1065 main form amounts** box to have screen **199A** amounts calculate QBI instead. There are also the **Qualified Business Income (QBI)** sections on screens **F**, **RENT**, and **8825**. Drake Tax automatically produces the required statements with each partner's Schedule K-1.



## IMPORTANT

- The program assumes that the partnership operates as a single business entity and that all of the income on Form 1065, line 22, "Ordinary business income (loss)," is Qualified Business Income for purposes of computing QBI deductions. If the amount on line 22 is from more than one trade or business, multiple screens **199A** must be created (one for each trade or business), and amounts must be



entered accordingly. If the program's calculated QBI total and the screens' **199A** total differ, the preparer will be instructed to create an **N199** screen to confirm the differences.

- To indicate that the partnership is a publicly traded partnership (PTP), from screen **B**, select the **Yes** box beside line **5**.
- Should unadjusted basis in assets (UBIA) need to be applied to the QBI calculation, Drake Tax will take the data entered on screen **4562** and use it accordingly. If you would like to calculate the taxpayer's UBIA outside of Drake tax, report UBIA on screen **199A** in the **Section 199A Unadjusted basis of assets allocated to this activity** field.

## Denoting Specified Service Trades or Businesses

Specified service trades or businesses are generally excluded from the definition of qualified trade or business. If the partnership is a Specified Service Trade or Business (SSTB), the partner could be subject to income limitations mentioned earlier; you must, therefore, mark the **Treat as a "specified service business"** box on the appropriate screen **199A** or **K199**, if applicable.

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

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

\*\* Any trade or business where the taxpayer receives fees, compensation, or other income for endorsing products or services, for the use of the taxpayer's image, likeness, name, signature, voice, trademark, or any other symbols associated with the taxpayer's identity, or for appearing at an event or on radio, television, or another media format

## Reporting Section 199A Items



### IMPORTANT

*New for 2020:* Data entry pertaining to QBI information has changed with the intent of making it easier to discern where to associate QBI information; among these changes, certain QBI deductions are now entered on screens *different* from what has been used in previous years. Read the following sections carefully to ensure that data is entered in the correct locations.

Report the Section 199A items to be passed through to the partners on screen **K199**, Qualified Business Income. Select from the **For** drop list the screen (**K1P** or **K1F**) that this activity pertains to.



Other QBI information should be reported on the following screens, as applicable:

- QBI is relevant to a single active trade or business *only*, reported on line 1 of Schedule K; or, QBI is from multiple business activities classified as “Ordinary business income” on line 1 of Schedule K — Screen **199A**
- Farms — Screen **F**
- Rental real estate — Screen **8825**
- Rentals *other than* real estate — Screen **RENT**

On each screen **K199** (Figure 12), type in the **EIN** and name of the business, and be sure to mark the **Treat as a “specified service business”** check box where appropriate. Type the Section 199A income information in the appropriate fields. To allocate the amounts and activities to the various partners, click the **SA** links. If reporting income data from more than one trade or business, press PAGE DOWN for an additional screen in order to allocate the data among the separate trades or businesses.

**Statement A - QBI Pass-through Entities**

Enter QBI, Statement A information provided as an attachment to the source K1.

For.....  (K1P, K1F)

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

EIN.....

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

☐ Business Aggregation Number.....

Trade or business name.....

☒ Treat as a "specified service business"

Ordinary business income (loss).....	<input type="text" value="12345"/>	<a href="#">SA</a>
Rental income (loss).....	<input type="text" value="1000"/>	<a href="#">SA</a>
Royalty income (loss).....	<input type="text" value="412"/>	<a href="#">SA</a>
Section 1231 Gain (Loss).....	<input type="text" value="130"/>	<a href="#">SA</a>

Figure 12: Qualified Business Income Deduction fields on screen **K199**

For screens **8825**, **RENT**, and **F**, select **Yes** or **No** from the **This activity is a trade or business** drop list in the **Qualified Business Income (QBI)** section at the bottom of the screen. (If this return was updated from Drake Tax 2019, the field should be completed for you.)



## NOTE

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

## Safe Harbor for Rental Properties

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

- For rental real estate enterprises that have been in existence less than four years, 250 or more hours of rental services are performed per year. For other rental real estate enterprises, 250 or more hours of rental services are performed in at least three of the past five years
- Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise
- The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding the following: hours of all services performed, description of all services performed, dates on which those services were performed, and who performed the services

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

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

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

For complete details, see IRS Notice 2019-07.

## QBI Statements

Drake Tax includes the following worksheets with 1065 returns that include Qualified Business Income:

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

See IRS instructions for more on these statements.

## Aggregation, BAN, and PBAN

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



## IMPORTANT

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

If the partnership is engaged in more than one trade or business, and you determine that some of the separate businesses that are reported on this tax return qualify for aggregation, and the partnership *wants* to aggregate them, then enter the same number in the **BAN** fields of the different businesses on the screen for which QBI information is entered (screen **K199, 199A, RENT**, etc.).

Screen Code:  
**BAN**

Next, complete screen **BAN** (available on the **Other Forms** tab of the **Data Entry Menu**) for each of the trades or businesses being aggregated. Use the same BAN for the **BAN** screen as on the other screens of this aggregation. Name the aggregated group, and provide an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4.

## BAN Requirements

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

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

If there has been any change on the aggregation since the partnership's 2019 return, then, in text box **2** of the **BAN** screen, describe any changes in facts or circumstances that have occurred since the prior year relating to an existing aggregation of the trade or business.

## PBANs

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

If this partnership qualifies to be aggregated with any other businesses on this 1065 return *but* would like to leave aggregation choices up to the *partners*, enter a number

in the **PBAN** field (see Figure 13) on the screen for which QBI information is entered (screen **K199**, **199A**, **RENT**, etc.).

Figure 13: Entering a **PBAN** on screen **K199**

Enter this *same* number in the **PBAN** fields of every appropriate screen for each business on this return that potentially could be aggregated. (See “Reporting Section 199A Items” on page 40.) In Figure 13 (screen **K199**), this trade has been aggregated with others using PBAN “2.”

Screen Code:  
**PBAN**

Complete screen **PBAN** (available on the **Other Forms** tab of the **Data Entry Menu**) for each of the trades or businesses suggested for aggregation. Enter the proper PBAN and provide an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4 (see “BAN Requirements” on page 43). Use the same PBAN for the **PBAN** screen as on the other screens of this aggregation.

Screen Code:  
**N199**

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

Statement B, QBI Pass-Through Entity Aggregation Election(s) (listed as “K-1 Statement B” in View/Print mode), will be attached to each Schedule K-1 in returns with aggregated businesses.

Aggregated businesses are reported in a single column of the Qualified Business Income Information worksheet (“Wks QBI”) with “Yes” entered in the appropriate “Aggregated” box at the top-right.

## Multiple Aggregation Groups

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

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

## Oil and Gas Depletion Worksheet

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

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



### NOTE

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

## Multiple Foreign Transactions

*Screen Code: KFT* Information on foreign transactions is entered on a separate **KFT** screen, accessible from the **Foreign** tab of the **Data Entry Menu** or from line 16 of screen **K, Credits** tab, by clicking the **Schedule K Foreign Transactions** link. Through the **KFT** screen, you can report multiple foreign transactions. (Press PAGE DOWN for a new **KFT** screen.)

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

## Business Activities Statement

A Business Activities Statement (screen **BAS**) allows you to break down a partnership's Schedule K items by business activity. The amounts and totals from the **BAS** screen do not flow anywhere in the partnership return but do provide statements (listed in View/Print mode as "Wks BAS") you can use as a reference when transferring these amounts into the partner's 1040 return. A K-1 statement by business activity is also provided for the partners, listed in View/Print mode as "K-1 Wks BAS." (Figure 14 on page 46).

Figure 14: A Partner's Business Activities Statement in the 1065 Package

Business Activity Statement						2020	
(Keep for your records)						Tax ID Number	
Name(s) as shown on return						3	
Fawley Towers LLC							
ACTIVITY NAME(S)							
Activity 1 - Motel							
Activity 2 - Restaurant							
Activity 3 - Gift Shop							
Activity 4 - Groundskeeping							
LINE REFERENCES	1	2	3	4	Unallocated	Sch K Total	
1. Ordinary Business Income (Loss)	3,750,000	500,000	600,000	10,000	160,650	5,020,650	
2. Net Rental Real Estate Income (Loss)	See K1_8825						
3. Other Net Rental Income (Loss)					678	678	
5. Interest Income					100	100	

### At-Risk Rules

(New for 2020) At the bottom of the **BAS** screen are check boxes for line 21, "More than one activity for at-risk purposes," and line 22, "More than one activity for passive activity purposes." These check boxes were available on the **BAS** screen last year but did not function.

Mark the box for line 21 if the business activity is covered by the At-Risk rules. Selecting this box on screen **BAS** marks box 21 of Schedule K-1. The required statement attachment will be produced when multiple business activity **BAS** screens are completed (press PAGE DOWN to open a new **BAS** screen for each activity). Information provided in the statement should be used by the partner to figure at-risk limitations for his or her Individual (1040) return.

### Passive Rules

(New for 2020) Mark the box on line 22 if the business activity is covered by the Passive Activity rules. Selecting this box marks box 22 of Schedule K-1. The required statement attachment will be produced when multiple business activity **BAS** screens are completed (Press PAGE DOWN to open a new **BAS** screen for each activity). Information provided in the statement should be used by the partner to figure passive limitations for his or her Individual (1040) return.

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

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

### Partner's Name and Address

In the **Partner's Name and Address Information** section in the upper portion of the **K1** screen, enter the SSN/TIN of the partner in the **ID number** field (line **E**) and the partner's address (line **F**). If the partner is an entity rather than individual, enter the partner's name in the **Entity name** field. (See "Partner Type," below.)

If the partner signs the return for the partnership, and has a title, you can enter that title in the **Title for Pin Signature** field. That title will appear on the K-1 letters prepared for all partners. Override this name with entries on either the **PIN** screen or **COMM** (also known as the **K1L**) screen. The **COMM** screen entries override entries from either the **PIN** screen or the **K1** screen. For more on the K-1 letter, see “Editing the K-1 Letter” on page 57.

## Foreign Addresses

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



### NOTE

The **Foreign ONLY** fields are initially locked when a return is opened to prevent accidental data entry. Click one of the fields to unlock them throughout the return. To again disable the unused **Foreign ONLY** fields, close and then reopen the return.

### Partner Type

From the line **I1 PARTNER type** drop list (Figure 15 on page 48), choose the type of partner (not the type of partnership). If this box is left blank, the program uses the default selection of **Individual**. On line **H1**, select **Domestic** or **Foreign partner** (default is **Domestic**). If the partner is an **Eligible foreign entity**, mark the **B2** check box. (See Figure 15. For more information, see “Eligible Foreign Entity” on page 34.) If the partner is a retirement plan (IRS, SEP, Keogh, etc.) mark the **I2** check box.

### “Disregarded Entity”

In the case of a Limited Liability Company, from the **I1** drop list, select **Disregarded**, for “disregarded entity,” or **Individual SMLLC**, for “single member LLC,” and on line **H2**, enter the entity’s TIN (if available). Back on lines **E** and **F** in the **Partner’s Name and Address Information** section, be sure the ID number, name, and address is that of the Schedule K-1 on which this information will be reported is entered – that is, the K-1 of the “beneficial owner.”

For instance, if the partner is a SMLLC but the beneficial owner is an individual, enter that taxpayer’s SSN on line **E** and the name of the taxpayer in the line **F** fields.



### NOTE

(*optional*) For identity protection purposes, you can choose to enter only the last four digits of the disregarded entity’s TIN. For line **H2**, type 00000, then the final four digits of the ID number.



Type of Partner

G ☒ General or LLC member-manager ☐ Limited or other LLC member H1 ☐ Domestic partner

H2 TIN of disregarded entity..... Name of disregarded entity.....

I1 **PARTNER type (not the partnership)** ☒ B2 - Eligible foreign entity I2 ☐ Is th

J. Partner's % Beginning

Profit.....

Loss.....

Capital.....

INDIVIDUAL

IND SMLLC

IND PASSIVE

CORPORATION

S CORPORATION

PARTNERSHIP

DISREGARDED

EST. DECEASED PTR

check if decrease is due to sale  
exchange of ptr. interest

OWN Screen

Figure 15: Selecting a K-1 Partner Type

## Other Partner Information

Besides the **PTR REP** check box (see “Partnership Representative” on page 32), the **Other Information** section of the **K1** screen offers a place to indicate which partner signs the return and which is the rounding partner. The **Control number** field gives you another sorting option. (See “Setting Sort Order of K-1s” on page 49 for more information.)

### Rounding Partner

Mark the **Rounding Partner** check box on screen **K1** (Figure 16) to select which partner should be the rounding partner who will receive any balancing amount on Schedule K-1 when the return is calculated. If you do not make a selection, the program designates the first partner you entered as the rounding partner.

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

K1 [Basis Wks](#) [Supplemental Info](#)

**Schedule K-1 - Partner's Share of Income**

Other Information

Control number 2 ☐ Signs Return

☒ Rounding Partner ☒ PTR REP

Partner's Name and Address Information

E ID number..... 4

F Name..... First Name Amelia

Figure 16: Designating a Rounding Partner

### Signs Return

If the partner described on this **K1** screen is the partner who signs the return for the partnership, mark the **Signs Return** check box (Figure 16). This partner’s information will not have to be re-entered on the **PIN** screen. (The fields **ERO PIN**, **PIN** of the “sign’s return” partner, and **Signature date** must still be completed on the **PIN** screen for the return to be eligible for e-file.)

If the partner who signs the return has a title, you can enter that title in the **Title for Pin Signature** field. That title will appear on the K-1 letters prepared for all partners.



## Sorting and Viewing Schedules K-1

View a return with multiple Schedules K-1 and you will see, in the forms “tree” on the left side of the **View/Print** window (in Enhanced View), that each partner has a “K1” folder (blue circle in Figure 17) containing Schedules K-1 and any other forms, worksheets, statements, and letters generated for that partner.

For those who print their K-1 forms from the **Sets** tab in View/Print mode, click the **Sets** tab and notice that each partner has a separate folder containing *all* generated federal and state K-1 schedules, forms, and worksheets, making it easier to print everything needed for the partner (red box in Figure 17).

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

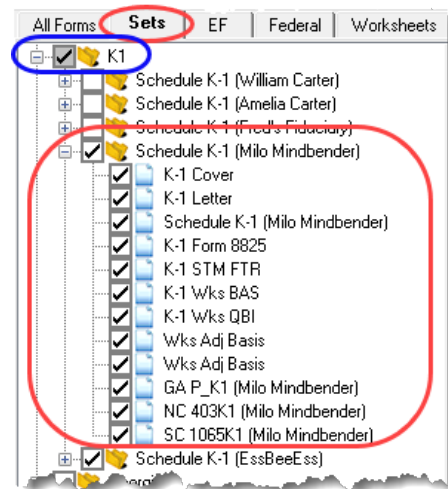


Figure 17: Contents of Partner's Schedule K-1 Folder

### Setting Sort Order of K-1s

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

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

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

### Control Number

The **Control number** is an optional number the preparer can use to identify and sort Schedules K-1. The number can contain up to five digits, and decimals are allowed. Schedules K-1 can be sorted in View/Print mode by selecting **Control** from the **Sort K1s by** drop list on screen **PRNT**. The control number is printed at the top of the Schedule K-1.



### IMPORTANT

Drake Tax does not automatically “increment” the control number. If some partners have a control number and others do not, those

without will be listed first in View/Print mode based on the order in which they were entered into the program, followed by the partners with control numbers, listed numerically.

## Grid Data Entry for Screen K1

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

First, initiate grid data entry:

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

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

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

### TIPS



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

## Schedule K-1 Codes

*New for 2020:* The IRS has discontinued page 2 of Schedule K-1 for Form 1065 and has instead moved K-1 codes to the Schedule K-1 instructions, but these codes can still be generated in Drake Tax.

Instead of producing the entire K-1 code sheet, however, Drake Tax now generates only those codes that actually appear on each Schedule K-1. For instance, if the K-1s

include codes in boxes 12, 15, and 17, then the only codes produced and explained on the K-1 codes sheet will be those for boxes 12, 15, and 17. These codes are printed on the "Schedule K-1 Supplemental Information" page that is generated with each K-1, and they reference the page in the K-1 instructions where further information can be found (Figure 18).

<u>Form 1065 Schedule K-1 Codes</u>	
Line 11, Code A	- Other portfolio income (loss) [See K-1 instructions, page 9]
Line 11, Code F	- Section 743(b) positive adjustments [See K-1 instructions, page 9]
Line 11, Code I	- Other income (loss) [See K-1 instructions, page 9]
Line 13, Code A	- Cash contributions (60%) [See K-1 instructions, page 11]
Line 13, Code I	- Deductions-royalty income [Schedule E (Form 1040), line 19]
Line 13, Code R	- Pensions and IRAs [See K-1 instructions, page 12]
Line 13, Code W	- Other deductions [See K-1 instructions, page 12]
Line 14, Code A	- Net earnings (loss) from self-employment

**Figure 18:** Schedule K-1 Codes that are used in the return now appear in the "Supplemental Information" section of Schedule K-1.

To generate K-1 codes, from the **Home** window menu bar of Drake Tax, go to **Setup > Options**, click the **Form & Schedule Options** tab, and mark the **Print page 2 of Schedule K-1 for 1041 and K-1 codes for 1120S and 1065** box.

For the complete list of Schedule K-1 codes, from the **Home** window menu bar, go to **Tools > Blank Forms**, click **Search**, and type 65CODES.

Schedule K-1 may include asterisks with letter codes.

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

## Returns with Numerous Partners

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



### IMPORTANT

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

## Partner Overrides

To override calculated amounts for partners, you can either make changes on each **K1** screen or go to one of the **SA** screens for partner special allocations and make all changes there. For more information, see “Special Allocations” on page 37.

## Ownership Changes

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

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

### NOTE



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

## Printed Data

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

## K-1 Export

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

1. Ensure that K-1 data is entered in the *exporting* 1065 return and that the *recipient* return has been created in Drake Tax. (The **K1P** screen in the other return does not have to be created beforehand.)
2. In the *exporting* 1065 return, go to View/Print mode.
3. Click **K1 Export** in the View/Print mode toolbar. A list of SSNs that *cannot* be exported appears, if applicable. (The reason a K-1 is ineligible for export appears in the **Reason** column.) Click **Next**.
4. The **Export K1s** dialog box (Figure 19) lists all clients that can be exported. (To prevent a Schedule K-1 in this list from being exported, remove the check mark to the left of it.)



Figure 19: Client Schedules K-1 ready to be exported

TIN	Name	Package
<input checked="" type="checkbox"/> 4	Ess Bee Ess	S Corporation
<input checked="" type="checkbox"/> 4	William Carter	Individual
<input checked="" type="checkbox"/> 4	Amelia Carter	Individual
<input type="checkbox"/> 4	Seay's Trucking	Corporate
<input checked="" type="checkbox"/> 8	Fred's Fiduciary	Fiduciary

5. Click **Export**. The K-1 data now appears on the partner's 1040 tax return as a **K1P** screen.



## NOTE

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

The K-1 Export feature can also export K-1 data from partnership returns into the K-1 “source” screen (**K1P**) of the 1065 package.

The **Additional Entries** tab on screen **K1P** (Figure 20) offers fields for additional K-1 information—likewise, should additional information need to be entered after a **K1** screen has been exported, there is an equivalent tab (**Add'l entries**) on the **K1P** screen in the 1040 package.

Figure 20: Additional entries tab of the K1P screen

1065 K1 1-20 Additional entries

Schedule K-1 for 1065 additional entries

123 M - in St Hig

Box/Code	Amount	Box/Code
11a	1234	
11i10	2534	
11i10		
11i11		
11i12		
11i13		
13a		
13b		
13c		
13d		
13e		
13f		
13g		
13h		
13i		

11i10 - Gain from sale of QSB stock eligible for Sec. 1202 exclusion  
 11i11 - Gain from replacement stock purchased by the partnership  
 11i12 - Gain from replacement stock NOT purchased by the partnership  
 11i13 - All other income items  
 13a - Cash (50%)  
 13b - Cash (30%)  
 13c - Non-cash (50%)  
 13d - Non-cash (30%)  
 13e - Capital gain 50% organization (30%)  
 13f - Capital gain property (20%)  
 13g - Contributions (100%)  
 13h - Investment interest expenditures  
 13i - Deductions - royalty income

## Supplemental Information

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

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

To add supplemental information “globally” (to all K-1s), open the **K1G** screen, accessible from the **General** tab of the **Data Entry Menu**. Select **Global Supplemental Statement Information** from the **Select Type** drop list, and enter the necessary information in the **Supplemental Information** text box. This information will appear in all partners’ Schedule K-1 Supplemental Information statements.

To add supplemental information to an individual K-1 statement, open a partner’s **K1** screen and click the **Supplemental Info** link at the top of the screen. In the **Supplemental Information** pane (Figure 21 on page 55), enter information pertinent to the partner. The information appears in only that partner’s Schedule K-1 Supplemental Information statement.

**Figure 21:** In this example, the information entered on the **K1** screen appears on only partner Amelia Carter's Schedule K-1 Supplemental Information statement

[K1](#) [Basis Wks](#) **Supplemental Info** [8805 / Item M](#)

**K1S - Supplemental Information for Schedule K-1**

4 **Amelia - Carter**

Use the K1G screen to enter global supplemental information.

Enter specific information for a single K-1 here. Information entered here is added to global supplemental information entered on K1G screen.

Supplemental Information

Partnership's rental property income for Amelia Carter:

From 4797 - Land @ 9876 West Ave. - Type 5 - Total profit: \$12,345  
 From K-1S - Commercial @ 454 N. St. - Type 4 - Total profit: \$22,222  
 From K-1P - Rental @ 505 East Blvd. Type 7 - Total profit: \$20,202

## Item M Question

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

1. On the **PRNT** screen (accessible via the link **PRNT Screen** beside item M), select **Yes** in the **Item M on Schedule K-1** section.
2. On screen **K1G**, select **K1M - Built In Gain Loss Statement** from the drop list, and enter any supplemental information needed in the text box below.

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

Supplemental information entered on either the **8805/Item M** tab of screen **K1** or by using code **K1M** on screen **K1G** will appear on the supplemental information statement.

## Partner's Adjusted Basis Worksheet

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

The **Basis Wks** screen is accessible by clicking the **Basis Wks** tab at the top of the **K1** screen for a partner.



## NOTE

The Basis Worksheet ("Wks Adj Basis") appears in partners' K-1 folders only when the check box **Print partner's adjusted basis worksheet** is selected on the **PRNT** screen.

### Annual Update of Partner Info.

When the program is updated in 2021, the 2020 end-of-year basis and liability amounts become the 2021 beginning-of-year amounts. Any loss or deduction carry-over is updated to the beginning of the year, and its character (ordinary loss, section 179 expense, charitable contributions, etc.) is maintained.



## NOTE

If **Final K-1** is marked on a partner's **K1** screen, none of the related screens for that partner will be updated in the 2021 tax program.

### Special Allocations

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

For information on the **SA** screens, see "Special Allocations" on page 37.

### Section 754 Allocations

To allocate section 754 depreciation among specific partners:

1. Open a screen **4562** (accessed from the **Assets-Sales-Recapture** tab of the **Data Entry Menu**) for each asset for which you plan to allocate section 754 depreciation. Press PAGE DOWN for additional screens.
2. Select **754** from the **For** drop list at the top of each screen **4562**.
3. Open screen **K** (from the **General** tab of the **Data Entry Menu**), and click the **Deductions** tab.
4. Click the **SA** link on line 13d, item W, "Section 754 depreciation..." line, and enter data as necessary. (See "Special Allocations" on page 37 for details on using the **SA** screen.)

## Domestic Production Activities Deduction

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

## K-1 Cover Letters

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



## Producing Letters for All Returns

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

### NOTE



Also from **Setup > Options > Client Communications** tab, you can choose to have the partnership's information or your firm's letterhead (and logo) printed at the top of the K-1 letters.

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

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

### NOTE



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

## Editing the K-1 Letter

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

### NOTE



Review the following sections of the *2020 Drake Tax User's Manual* before making changes to letter templates:

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

To edit the text of the K-1 letter:

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

### NOTE



For an amended return, the K-1 letter automatically refers to the amended Schedule K-1. To edit the letter for an amended K-1, from the Client Communications Editor toolbar, select **Open > Partner-**

**ship > Partnership K1 Amended Letter**, and follow steps 3 and 4 of the previous procedure.

### Other K-1 Letter Options

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

### Printing Firm Info. in Letterhead

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

### Preventing Printing of Letterhead

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

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

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

For more on working with letterheads, see "Setting Up Letterheads, Logos, Footers, Margins, and Borders" in Chapter 2 of *2020 Drake Tax User's Manual*.

## IMPORTANT



Changes made to the letterhead affect the letterhead in *all* packages.

## Schedule L (Balance Sheets Per Books)

Schedule L and Schedule M-2 reconciliation totals are displayed on screens **L** and **M2** to facilitate reconciliation of the balance sheet (item #1 in Figure 22 on page 59).

**Figure 22: Beginning- and End-of-Year totals displayed on L screen (#1); force-printing end-of-year totals (#2); link to SCH2 screen (#3); force-printing Schedule L and M-1 (#4)**

**Schedule L - Balance Sheet**

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

Autobalance can be turned off/on [PRNT](#) [Force-print Schedule L and M-1](#) ☐ Force-print final end of year

	Beginning of Year		End of Year		
	(a)	(b)	(c)	(d)	EOY Totals
1 Cash.....		200000	200000	5200000	5200000
2a Trade notes and accounts received.....	1000		1000	1111	1111
2b Less allowance for bad debts.....	123	(123)			
3 Inventories.....					
4 U.S. Government securities.....					
5 Tax-exempt securities.....				27703	27703
6 Other current assets.....			200		222
7a Loans to partners.....					
7b Mortgage/real estate loans.....					
8 Other investments.....					
9a Depreciation.....					

Note that the totals from the balance sheet's subsidiary schedule (SCH2 screen link, item #3 in Figure 22) also appear in the **BOY Totals** and **EOY Totals** columns of the L screen.

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



## TIP

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

Schedule L is *not* required if:

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

If the partnership meets *all four* of these conditions, go to screen **B** (located on the **General** tab of the **Data Entry Menu**), and select **Yes** for line 4. Because Schedules L, M-1, M-2, and section L of Schedule K-1 are not required, they will not be generated with the return. To force the program to generate these items, return to screen **L**, and click the **Force-print Schedule L and M-1** link (item #4 in Figure 22 on page 59) to open the **PRNT** screen. In the **Items to Print** section, select **Force Schedules L, M-1, M-2, & K-1 Section L**.

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

## Print End of Year Totals

If the **Final return** check box is marked on screen **1**, you can select the **Force-print final end of year** check box (see item #2 in Figure 22 on page 59) on screen **L** to keep the program from “zeroing out” the end-of-year totals.

## Print Section L

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

From the **PRNT** screen (available from the **Miscellaneous** tab of the **Data Entry Menu**), select **Force Schedule K-1 Section L only**, and any available data is generated in the “L” section, “Partner’s Capital Account Analysis,” of Schedule K-1 (Figure 23).

L Partner's Capital Account Analysis		
<b>Beginning Capital Method: Tax Basis</b>		
Beginning capital account . . . . .	\$	54,040
Capital contributed during the year . . .	\$	
Current year net income (loss) . . . . .	\$	1,047,503
Other increase (decrease) (attach explanation)	\$	
Withdrawals & distributions . . . . .	\$ (	41,402 )
Ending capital account . . . . .	\$	1,060,141

Figure 23: Section L information on Schedule K-1

## Flow of Information

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

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

## The SCH2 Screen

The **SCH2** screen is used to provide detailed information required by the IRS for certain lines on Schedule L. This screen can be used in place of the actual **L** screen in Drake Tax. In other words, if you use this screen for all applicable lines on Schedule L, you *do not* need to make any entries on the **L** screen.

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

To create a statement for a line, select the line from the drop list (see Figure 24), and enter descriptions and their corresponding amounts. If additional descriptions are

required for the line, or to enter descriptions and amounts for another line, press PAGE DOWN to access a new screen.



## NOTE

All line selections are carried to next-year's program when the return is updated. Screen descriptions are updated (should line numbers have changed), with the 2020 year-end amounts flowing to the 2021 beginning-of-year column.

### Statements

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

Note that an e-fileable "STATEMENT" is referenced in the return (Figure 24).

**Select line number from drop list**

6	Other Current Assets	(STATEMENT)
1	Cash	
2a	Trade Notes and Accounts Receivable	
2b	Allowance for Bad Debts	
3	Inventories	
4	U.S. Government Obligations	
5	Tax-exempt Securities	
6	Other Current Assets	(STATEMENT)
7a	Loans to Partners	
7b	Mortgage and Real Estate Loans	

**Schedule L Balance Sheets per Books**

		beginning of tax year	
		(a)	(b)
1	Cash		200,000
2a	Trade notes and accounts receivable	1,000	
b	Less allowance for bad debts	123	877
3	Inventories		
4	U.S. government obligations		
5	Tax-exempt securities		
6	Other current assets (attach statement)		6,200
7a	Loans to partners (or persons related to partners)		

**Figure 24:** Data entered as "Other Current Assets" from the drop list on screen **SCH2** is included as an e-fileable statement and referenced on the applicable line of the return

### SCH2 and Trial Balance

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

When the return is produced, Schedule L reflects the amounts imported from the trial balance worksheets (where direct entry was allowed). For more information, see "SCH2 Detail" on page 92.

## Autobalance

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

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

*New for 2020:* Preparers can now choose to turn off the autobalance feature globally (for all returns) at **Setup > Options > Calculation & View/Print** tab by marking the **Turn off auto-balance of the balance sheet** check box. The option to override the global selection on a per-return basis is now toggled via the **Reverse autobalance setup option** check box on screen **PRNT**.

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

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

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

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

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

### Schedule M-1

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

Use the **M1** screen (found on the **General** tab of the **Data Entry Menu**) to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as *permanent* or *temporary*, and as *favorable* or *unfavorable*, as described in Table 2:

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

Difference	Description	Examples
Permanent	Book or tax items that will never be reported for book or tax purposes	<ul style="list-style-type: none"> <li>- Meals &amp; entertainment limitations</li> <li>- Penalties</li> <li>- Tax-exempt interest</li> </ul>

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

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

### “Other” Adjustments

Open the **Schedule M1 Other Adjustments** screen to make adjustments to Section L, “Partner’s capital account analysis,” of the partners’ Schedules K-1. To open the **Schedule M1 Other Adjustments** screen, click a blue **Other** link (circled in Figure 25) on lines 2, 4, 6 or 7 of screen **M1**.

**Schedule M-1 - Reconciliation of Income (Loss) per Books with Income (Loss) per Return**

Note: Schedule M-1 is not generated if there are entries on the M-3 screens.

1 Calculation is based on the reconciling items entered & the amount that flows to Sch M-1, line 9.....

2 Income recorded on Schedule K but not on books: Other..... [Other](#)

4 Expenses recorded on books but not on Schedule K: Book-to-tax depreciation adjustment... =  [SA](#)  
Other..... [Other](#)  
Book-to-tax amortization adjustment... =  [SA](#)

6 Income recorded on books but not on Schedule K, lines 1 through 11: Tax-exempt interest..... [K Screen](#)  
Other..... [Other](#)

7 Deductions included on Sch K but not charged against book income: Tax-to-book depreciation adjustment... =  [SA](#)  
Other..... [Other](#)  
Tax-to-book amortization adjustment... =  [SA](#)

Do not flow adjustments to K-1 Section L - Current Year Increase (Decrease) ☐

**Figure 25: Other screen links from screen M1**

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



### NOTE

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

To allocate these adjusted amounts to the partners, click the **SA** link on the right side of the **Amount** field on the **Other** screen. For more



on using the Special Allocation (**SA**) screens, see "Special Allocations" on page 37.

## Depreciation and Amortization Adjustments

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

1. The amount reported on Schedule L (screen **L**) on the "Beginning of Year" **Accumulated depreciation** line (line 9b, column a) (line 10b is "Accumulated depletion"), is subtracted from the "End of Year" **Accumulated depreciation** line (line 9b, column c). This is the "book" depreciation amount.
2. This "book" depreciation amount is compared to the "tax" depreciation amount. (The "tax" depreciation amount is the depreciation amount reported on the return, including any section 179 amounts).
3. The differences between the "book" and "tax" depreciation amounts are carried to the appropriate form and line.
  - If the "book" depreciation amount is greater than the "tax" depreciation amount, the difference is carried to one of the following:
    - Schedule M-1, line 4a, "Depreciation \$"
    - Schedule M-3, Part III, line 25, "Depreciation" (as a negative amount)
    - Form 8916-A, line 2(L), "Depreciation," as a negative amount for assets selected on the **4562** detail screen for COGS
  - If the "tax" depreciation amount is greater than the "book" depreciation amount, the difference is carried to one of the following:
    - Schedule M-1, line 7a, "Depreciation \$"
    - Schedule M-3, Part III, line 25, "Depreciation" (as a positive amount)
    - Form 8916-A, line 2(L), "Depreciation," as a positive amount for assets selected on the **4562** detail screen for COGS

## Schedule M-3

The **Schedule M-3** section on the **General** tab of the **Data Entry Menu** includes direct access to the various **M3** screens (Figure 26).

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

Schedule M-3	
M3	Part I
M32	Part II
M33	Part III
C	Schedule C for M-3 Filers
M3S	Part I Supplemental Statements
SCH3	Subsidiary Schedule
8916	Supplemental Attachment

Figure 26: Schedule M-3 screens

## NOTES



- The program calculates total assets based on IRS requirements. For more information, see the Adjusted Total Assets Worksheet



("Wks M-3") produced with the return and available in View/Print mode.

- Some calculated amounts flow automatically to Schedule M-3; other data must be manually entered on the **M3** screen. Be sure to review all amounts on the Schedule M-3.

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

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

## Force-Printing Schedule M-3

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

See "Schedules M-1, M-3 (Reconciliation of Income)" on page 62 for more details on these schedules.

### **SCH3** Screen

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

To create a statement for a line, select the desired line from the **Select line number from drop list** on screen **SCH3**, then enter descriptions and their corresponding amounts. If additional descriptions and amounts are required for the line, or to enter descriptions and amounts for another line, press PAGE DOWN to access a new screen. If entering additional data for the same line on a new **SCH3** screen, be sure to make the same selection from the **Select line number...** drop list.



### NOTE

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

As with the **SCH2** screen, the type of statement produced by the program depends on the line selected on the **SCH3** screen and the IRS requirements. See "The SCH2 Screen" on page 60 for more information on how to use the **SCH3** screen.

### Allocating M-3 Items

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

See “Special Allocations” on page 37 for details on using the SA links.

## Rental Activities

Screen code: **8825**

Income and expenses for rental real estate properties appear on Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. To make entries in Drake Tax, use the **8825** screen, available from the **Other Forms** tab of the **Data Entry Menu**. (Grid data entry is available for this screen. See “Grid Data Entry for Screen K1” on page 50 for details on using this feature.)

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



### NOTE

Special steps are required if using the trial balance worksheet for multiple rentals. See “Rental Expenses” on page 93 for more information.

## Line 14, Depreciation

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



### NOTES

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

### Information Flowing to Form 8825

To indicate that the information should flow to Form 8825, select **8825** from the **For** drop list on screen **4562** (Figure 27). If there are multiple **8825** screens, use the **Multi-form code** box. For information on using the **Multi-form code** box, see the 2020 *Drake Tax User's Manual*.

**Figure 27:** In this example, the program sends the **4562** information to the third **8825** screen created.

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



## IMPORTANT

When selecting a multi-form code, note that the code should refer to an **8825 screen**—not the **8825 form**. For example, data from the third **8825 screen** is generated on the first **Form 8825**. To associate an asset with that information, you would type a “3” for the screen (not a “1” for the form) in the **Multi-form code** box. For more information on Form 8825, see “Viewing Rental Activity Information” on page 68.

### Information Flowing from Form 4797

If the corporation sold rental property, and screen **4797** is completed, data flows from Part II, line 17, “Combine lines 10 through 16,” of Form 4797, to the first Form 8825, line 19, “Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities.”

## Line 15, Other Expenses

For rental properties with an “other” expense (line 15 of Form 8825), enter the amount of guaranteed payments, health insurance payments, and meals in the appropriate fields of the **8825** screen (Figure 28). For rental properties with expenses not listed, enter those amounts in the **Additional other expenses** field. (An entry in this field opens a Detail Worksheet. Enter a description in the **Description** field and an amount in the **Amount** field.) The shaded field indicates a worksheet was entered.

**Figure 28:** Fields for entering line 15 “other” data on screen **8825**

Totals from the worksheet flow to Form 8825. A statement from each property is generated with the return and transmitted to the IRS when the return is transmitted.

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



## NOTE

Entries in the "Guaranteed payments" fields and "Health insurance payments" field on screen **8825** do *not* flow to line 10, "Guaranteed payments to partners," of Form 1065 but *do* flow to Form 8825 and *do* adjust the amounts on lines 2, "Net rental real estate income (loss)," and 4, "Guaranteed payments," of Schedule K.

## Qualified Business Income on Screen 8825

If this rental activity is a trade or a business, select **Yes** from the **This activity is a trade or business** drop list in the **Qualified Business Income (QBI)** section of the **8825** screen. For a possible aggregation of business for the partners' individual returns, type an appropriate number in the **Potential Business Aggregation Number (PBAN)** field. For more information on using these fields, see "Passing Through QBI Information" on page 39 and "Aggregation, BAN, and PBAN" on page 42.



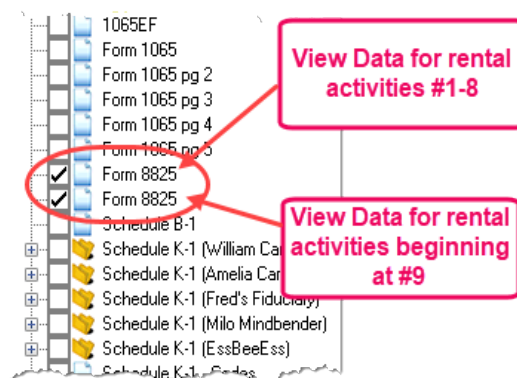
## NOTE

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

## Viewing Rental Activity Information

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

- **8825 Forms** — Form 8825 can contain information for up to eight rental activities. If more than four rental activities are entered, a second page of Form 8825 is generated. If more than eight rental activities are entered, a second Form 8825 is created (Figure 29).
- **8825 Statements** — Statements are titled "Statement 8x," (or "STM 8X," depending on your Setup options) where "X" equals "A" to "H" for the first Form 8825. (For example, the statements for the first and second **8825** screens would be labeled "**Statement 8A**" and "**Statement 8B**," respectively.) (See Figure 30 on page 69.)



**Figure 29:** If there are more than eight rental activities, a second Form 8825 is created

Figure 30: Form 8825 statements and attachments

1065 Form 8825

Franklin, NC 28734

C 333 North Blvd

Franklin, NC 28734

D 666 Devils Island

Franklin, NC 28734

Other Expenses	A
Guar. Pay for Services	5,558
Guar. Pay for Capital	4,448
Health Insurance	3,338
Meals & Entertainment	1,118
Statement #8A	8,765
Statement #8B	

Statements referenced on "Form 8825 - Attachments"

## Self-Employment Income

If **Mark this box to include in self-employment income** is selected at the top of the **8825** screen, the amounts from the **8825** screen are included in the calculation for line 14a, "Net earnings (loss) from self-employment," of Schedule K and flow to each K-1. Self-employment calculations are shown on line 1b, "Net income (loss)," on the Figuring Net Earnings (Loss) From Self-Employment worksheet ("Wks SE").

## Royalties Worksheet

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

When a 1065 return is viewed, instead of the royalties' income and expenses flowing to box 2, "Net rental real estate income," of Schedule K-1, gross royalties flow to Schedule K, line 7, "Royalties," and expenses to Schedule K, line 13d, "Other deductions." These amounts are also on the Royalty Worksheet.

### NOTE



Form 8825 will not be generated unless otherwise needed.

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

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

Screen **8997** is located on the **Other Forms** tab of the **Data Entry Menu**.

## Reporting QOF Investments

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

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

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

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

Press PAGE DOWN to create an additional **8997** screen, and make another selection from the **Part** drop list.

## QOF Investments

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

### Form 8996

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

In Drake Tax, use screen **8996** to complete Form 8996. Screen **8996** is available from the **Other Forms** tab of the **Data Entry Menu**.

**Part 1** certifies that the partnership was organized to operate as a QOF. **Part II** determines whether the partnership meets the 90 percent investment standard for a QOF. Entries in **Part IV** calculate any penalties for each month that the QOF did not hold at least 90 percent of its assets in Qualified Opportunity Zone (QOZ) property.

Complete Parts 1, II, and IV on screen **8996**. Click the link at the bottom of the screen to complete **Parts V and VI**.

### QOZ Tract Numbers

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

See Form 8996 and its related instructions for more information.

## Credits and Adjustments

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



### NOTE

No adjustment is carried to Schedule M-3 automatically.

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

## Employer Credit for Paid Family Medical Leave

Screen Code:  
**8994**

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

## Elections

The ability to make certain tax elections is included in the Partnership package. Elections are made and described on the **ELEC** screen (Figure 31 on page 72).

## Making an Election in Drake Tax

Screen code:  
**ELEC**

To indicate that the partnership is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. Make a selection from the **Election** drop list.
3. Complete all other fields as applicable. Press F1 in any field to learn if that field is required for your selection and the type of information that may be needed. For example, the help text for the **Date or year-ending** field (Figure 31 on page 72) shows that the field is required only for election options 08, 11, 13, 15, and 21, and it explains what, specifically, should be entered for each of these elections.

Figure 31: Help text for **Date or year-ending** field on screen **ELEC**

**Elections**

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

Description.....

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

Date or year-ending.....

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

Other date or year-ending.....

City.....

County.....

State.....

Other information.....

Explanation.....

Drake Software - Data Entry - Help

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

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

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

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

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



## NOTE

If the election option you selected is not listed in the help text for a field, then that field should be left blank. For example, if you chose election 01 (General Election Statement), you would not need to enter anything into the **Date or year-ending** field (help text in Figure 31).

## Election Statements

Once an election is made and the return is calculated, the election information is produced on a statement referenced "Statement ELXX," where "XX" is the number of the election. For example, election 01 (General Election Statement) is generated as "Statement EL01."

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

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

## Safe Harbor Elections

Marking the **Building qualifies for Section 1.263...** check box on screen **4562** applies a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement is produced, and the building description as entered in the **Description** field is included in the election statement (see Figure 32 on page 73).





## NOTE

This (Sec. 1.263(a)-3(h)) Safe Harbor election covers buildings only.

This Sec. 1.263(a)-3(h) Election can also be made from the **ELEC** screen (election **44**), as can a Sec. 1.263(a)-1(f) de minimis safe harbor election (**43**) and a Sec. 1.263(a)-3(n) election (**45**).

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

Election statements from screens **4562** and **ELEC** are generated with the return (Figure 32).

Figure 32: Election statements, including the Safe Harbor election

## Making Changes on the Fly

Screen code:  
**PRNT**

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

## Suppressing/Forcing Documents

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

### 1065 Items

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

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

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

## K-1 Items

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

- **Select to Print:**
  - The partner’s adjusted basis worksheet
  - Schedule K-1 codes
- **Select to Suppress:**
  - Schedule K-1, K-1 letter, K1\_ATT, or WK\_PBAS
  - Schedule K/K-1 Comparison Worksheet or the Capital Account Reconciliation
  - K1\_179 for each partner
  - Marking of “Amended K-1” box on printed Schedule K-1
- **State Use Only - Partner’s capital account analysis** — *New for 2020:* The IRS now requires that all federal partnership returns use the tax basis for reporting partners’ capital and, as such, Drake Tax automatically uses the tax basis method by default for item L on Schedule K-1; however, many states continue to use alternative methods. If reporting partner capital for a state return and the state does *not* use the tax basis method, either select or enter the applicable basis for the state (see item #1 of Figure 33 on page 75).

**Figure 33:** Item 1: Electing an alternative basis for an applicable state partnership return; item 2: answering item M on Schedule K-1 globally

State Use Only - Partner's capital account analysis

Default - Tax Basis

☐ GAAP ☐ Sec 704(b) book

Other.....

Item M on Schedule K-1

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

- **Item M on Schedule K-1** — Select a box (item #2 in Figure 33) to answer item M of Schedule K-1 for *all* partners. To answer it for each individual partner, go to the partners' **K1** screens. See "Item M Question" on page 55 for more information.
- **Item L. Partner's Capital Analysis - Beginning capital account** — *New for 2020:* With the IRS requiring all federal 1065 returns to use the tax basis method beginning in tax year 2020, Drake Tax has added an additional section to screen **PRNT** to automatically convert returns previously using alternative methods to the tax basis. If the method used in prior-years to calculate partners' capital on section L of Schedule K-1 was *not* the tax basis, either select or enter the previous method on this section (Figure 34). The beginning capital method will be printed across the top of section L, and the converted basis will be calculated on the **Beginning capital account** line of the partner's Schedule K-1.

Item L. Partner's Capital Analysis - Beginning capital account  
balance if tax basis method was previously not used (2020 only).

☐ Modified outside basis method

☐ Modified previously taxed capital method

Method used to determine net liquidity value

☐ Section 704(b) method

**Figure 34:** Entering prior partner capital calculation method to convert to the tax basis method

## Overriding Other Setup Options

Select **Reverse autobalance setup option** to override the setting made from **Setup > Options > Calculation & View/Print** tab, either activating or disabling autobalance, depending on your selection (see "Autobalance" on page 62). Select **Prepare a Form 7004 extension** if sending an extension application. (See "Filing an Extension" on page 27.)

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

- Schedule K-1 sort order

- Date to print on return
- Amount on Form 1065, page 1, item F (“Total assets”)
- IRS Service Center

## Instructions/ Coversheets

Filing instructions (federal and state) and envelope coversheets (partnership, IRS, state, city, and K-1s to partners) can be edited on the **COMM** screen. Access the **COMM** screen by click the **Filing instruction and coversheet options** link on screen **PRNT**, and use the **COMM** screen to override global selections in **Setup > Options**.

For more on global options and the **COMM** screen, see Chapter 2 of the *2020 Drake Tax User's Manual*.

## Required Security Information

The purpose of Drake Tax's Filing Security Information screen (**SEC**) is part of an IRS initiative to protect businesses and tax return preparers from data theft and tax fraud. Information entered on the **SEC** screen is transmitted when the tax return is e-filed.

*New for 2020:* The partnership's 2019 income is now required. If the partnership's return was filed through Drake Tax last year, the **Total prior year income amount** will be imported automatically when you update the 2019 return to the 2020 package. (That amount also will flow to the “2019” column of the **COMP** screen in the 2020 package.) If the partnership's return was *not* filed through Drake Tax—or if you wish to change the amount imported from 2019—enter the amount in the **Total prior year income amount** field on the **SEC** screen.

Completing the rest of the **SEC** screen is optional for 2020; however, certain states will begin requiring this information in the near future.

Screen **SEC** is accessible via the **Filing Security Information** link at the bottom of screen **1** or from the **General** tab of the **Data Entry Menu**.

## Electronic Filing

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



### IMPORTANT

The IRS does *not* allow the following types of partnership returns to be e-filed:

- Bankruptcy returns
- Returns with pre-computed penalty and interest

## Additional Return Types

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

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

For information on how to indicate a short-year return in Drake Tax, see “Short-Year Returns” on page 14.

## Form 5471

Screens used to complete Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, are found in the **Information Return For-  
eign Corporations** section on the **Foreign** tab of the **Data Entry Menu**. Form 5471 is used by certain U.S. citizens and residents who are officers, directors, shareholders, or partners in certain foreign corporations. Taxpayers who must file this form are described in the IRS instructions.

## Schedule I-1

Section 951A requires U.S. shareholders of controlled foreign corporations to determine and include their Global Intangible Low-Taxed Income (GILTI) in taxable income every year. Section 951A is effective for tax years of foreign corporations beginning after 2017 and tax years of U.S. shareholders in which or with which such tax years of foreign corporations end. This information is reported on Schedule I-1 of Form 5471.

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

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

## Specified Foreign Corporations and Form 965

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

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

## Foreign Forms

Use screens on the **Foreign** tab of the **Data Entry Menu** for entering data on foreign financial accounts, for filing FinCEN Form 114, Report of Foreign Bank and Financial Accounts, Form 8804, Annual Return for Partnership Withholding Tax, Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, and Form 8813, Partnership Withholding Tax Payment Voucher.

### Forms 8804 & 8805

Use screen **8804** for reporting total section 1446 liability and additional Form 8804 information.

To allocate to a foreign partner the tax calculated on Form 8804, open the applicable partner's **K1** screen and select the **8805 / Item M** tab. On line **9**, enter the percentage you wish to allocate. The percentage determines the withholding tax allocated and tax credit available to the foreign partner (Form 8805).

In order for Form 8805 to be generated, a completed Form 8804 must also be present in the return. On the foreign partner's **K1** screen, make sure **Foreign Partner** is selected on line **H1**. From the **8805 / Item M** tab, complete all applicable information. The following four copies will be generated for each applicable partner:

- Copy A (IRS): Attach to Form 8804, and paper-file
- Copy B (Partner): Keep for your records
- Copy C (Partner): Transmit with (or attach to) Form 1065
- Copy D (Withholding Agent)

### Form 8813

Screen **8813**, used for completing Form 8813, allows you to enter amounts paid by the partnership in the prior year on foreign tax withheld and to produce vouchers for making 2021 quarterly payments. The filing and mailing instructions are listed on screen **8813**.

### FinCEN Form 114

When you calculate a return in Drake Tax, any required information missing from screens **114** and **FRGN** generates EF Messages unique to the FinCEN Form 114—listed in “FBAR Messages Page” in View/Print mode below “MESSAGES.” Before the FinCEN Form 114 can be eligible for e-file, all FinCEN 114 EF Messages on the “FBAR Messages Page” must be cleared; “FinCEN” must also have a green check mark on the **Calculation Results** window. (To see this window, make a valid selection from the **Pause option for calculation** drop list, selected at **Setup > Options > Calculation & View/Print** tab.)

Next, in data entry, open screen **EF**, mark the **FinCEN 114 only** check box. Return to screen **114** and select **FinCEN Form 114 is ready for transmission** at the top of the screen—the form *cannot* be e-filed unless this box is marked. When ready, view the return. “FinCEN114” will be indicated in EF Status pane on the Calculation Results window, and “Form 114” is both displayed in the forms “tree” and listed on the bill.

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

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



## NOTES

- Drake Tax produces "EF Notice - FBAR" as an acknowledgment that the e-filed FinCEN Form 114 report was received.
- No other returns—state or federal—can be transmitted with the FinCEN Form 114 through Drake Tax.
- The link to the BSA website is available on screen **114 (BSA E-Filing System)** for those who prefer that method of filing or who are seeking more information.
- For further information, refer to FAQ item **W, Foreign Accounts and FinCEN 114**.

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

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

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

1. In the **If Not Calendar Year** section of screen **1**, enter the **Fiscal year beginning** and **Fiscal year ending** dates. Use the MMDDYYYY format, as shown in the example below (Figure 35).
2. Mark the **52-53-week tax year** box.

**Figure 35:** Electing a 52-53-week tax year

In this example, the fiscal year begins 09/29/2020 and ends 09/27/2021 (the last Friday in September), giving the entity a 53-week year for 2021.

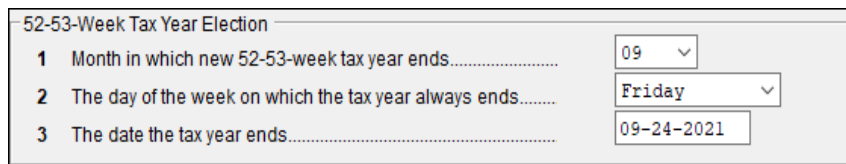


## NOTE

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

3. Click the **Year** link to open the **Short Year Elections** screen.
4. For line **1**, select the month in which the 52-53-week year ends for the current fiscal year. (01 = January, 02 = February, etc.)
5. For line **2**, select the day of the week the tax year always ends.

6. For line 3, enter the actual date that the tax year ends (the same date entered in the **Fiscal year ending** field on screen 1).



52-53-Week Tax Year Election	
1	Month in which new 52-53-week tax year ends..... 09
2	The day of the week on which the tax year always ends..... Friday
3	The date the tax year ends..... 09-24-2021

Figure 36: Entering 52-53-week year details on screen **YEAR**



## IMPORTANT

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

In subsequent years, only the **52-53-week tax year** check box on screen 1 must be marked; the program will update the dates automatically upon updating the return to the next year.

## Inactive Returns

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

Screen Code:  
**PRNT**

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

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

## Common Reject Codes

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

- **Reject Code R0000-900-01** — The return type indicated in the return header must match the return type established with the IRS for the EIN.
- **Reject Code R0000-922-01** — Filer’s EIN and Name Control in the return header must match data in the e-File Database, unless “Name Change” or “Name of address change” check box is checked, if applicable.



## Record Keeping

The **MISC** screen, accessible from the **Miscellaneous** tab of the **Data Entry Menu**, includes fields to help preparers keep up with the production schedule of a return: **Date promised**, **Date picked up**, how much the client was charged last year (the **2019 prep fee** field), and a check box for indicating clients who did not pay their bill last year. This is preparer information only and has no affect on the return.

The **Disaster Designation** field on the **MISC** screen is for entering the name of a federally designated disaster for those business entities that incurred disaster losses and that are subject to federal disaster rules. An entry in this field is printed across the top of the return but does not otherwise affect the return. The field is limited to 75 characters (including spaces).

## PDF Attachments

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

### The PDF Attachment Process

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

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

These steps are described in the following sections.

#### Creating a PDF File

If the document which needs to be attached is already a PDF, skip to “Adding PDFs to Drake Documents” on page 82. Otherwise, proceed to the proper section (either “Paper Document to PDF” or “Electronic Document to PDF”), and follow the indicated steps.

#### Paper Document to PDF

To convert a third-party document to PDF (such as a signature form, appraisals, or articles of incorporation) to a PDF:

1. Open the return in Drake Tax.
2. From the **Data Entry Menu** toolbar, click **Documents** to open Drake Documents.
3. From the Drake Documents toolbar, click **Scan**.
4. Enter a name for the document or select a name from the drop list. Make sure **.PDF** is the selected format. Use 50 or fewer characters, and do not use single quotes (’), double quotes (“”), angle brackets (< >), ampersands (&), or exclamation points (!).
5. Click **Scan**. Drake Documents copies and saves the client’s document into the client’s folder of Drake Documents.

From here, proceed to “Adding PDFs to Drake Tax.”

### Electronic Document to PDF

To convert an electronic document to a PDF:

1. Open the document in the program in which it was created. (For example, open a spreadsheet in Excel.)
2. Go to **Save As**, and when prompted to save the file, change the extension to **.PDF** (either manually or from a **Save Type** drop list). Save the document to a location where you can easily find it.
3. Rename the document to something that clearly identifies the content (or, if applicable, enter a required title). Use 50 or fewer characters, and do not use single quotes (‘’), double quotes (“”), angle brackets (< >), ampersands (&), or exclamation points (!).

### Adding PDFs to Drake Documents

PDFs must be uploaded to Drake Documents before they can be attached through Drake Tax and e-filed with the return. To upload a PDF to Drake Documents:

1. In Drake Tax, open the return, and click **Documents** from the **Data Entry Menu** toolbar. Drake Documents is opened.
2. Select the folder in the **Working Cabinet** where the document will be stored.
3. From the toolbar, click **Import** to open the **Import File** dialog box.
4. Browse to and select the desired document. Click **Open**. Drake Documents copies the PDF into the selected folder.

The document now exists as a PDF in Drake Documents and can be attached to the return.

### Adding PDFs to Drake Tax

Once you have all necessary attachments saved as PDF documents, open the return in Drake Tax, and complete the **PDF** screen, accessible from the **General** tab of the **Data Entry Menu**.

For each document, fill out the columns on the **PDF Attachments** screen (see Table 3).

Table 3: *PDF Attachment Window Columns*

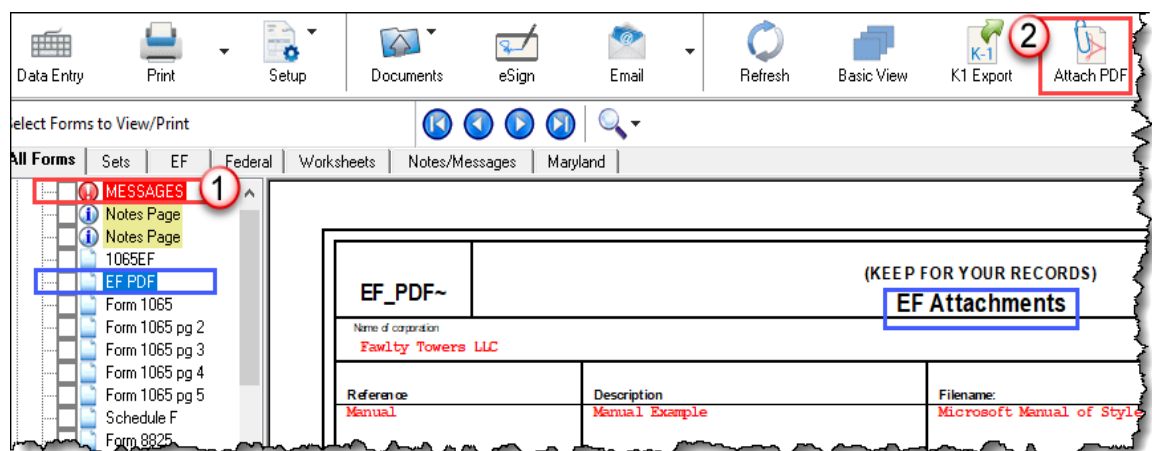
Name of Column	Description	Examples
<b>Reference Source</b> (This field is for your records only; it is not transmitted with the PDF.)	Regulation, publication, or form instructions that instructed you to provide the attachment	- IRS Pub xxx-1.4 - Form Instructions for 1065
<b>Description</b>	Description of the attachment, using up to 28 characters.	- Title of house on Oak Street - Appraisal of Lot 1234
<b>File name</b>	File name of the saved PDF. The file name must end with “.PDF”	- TitleHouseOakSt.PDF - AppraisalLot1234.PDF

## Attaching Documents to the Return

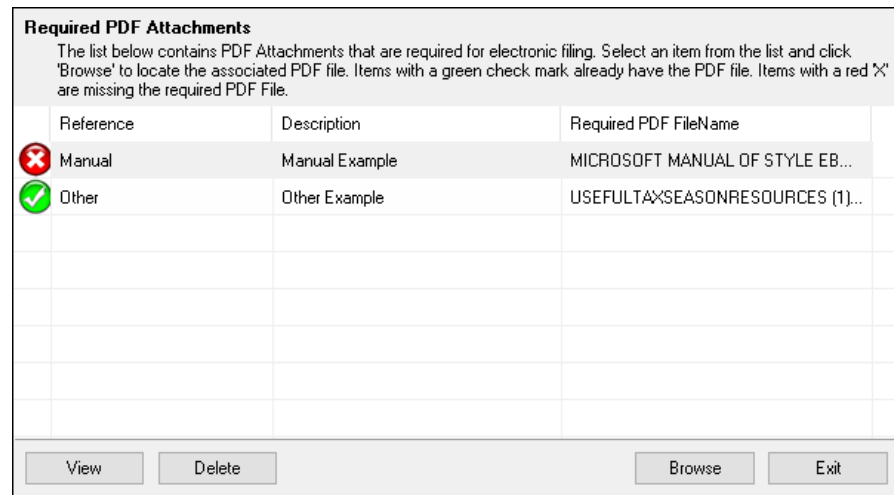
To attach a PDF to a return:

1. When data entry is complete, view the return by clicking **View/Print** from the **Data Entry Menu** (or use CTRL+V). If anything was entered on the **PDF** screen, there will be three PDF-related items in the **View/Print** window:
  - A “MESSAGES” alert (item #1 in Figure 37 on page 83) — EF Message 1512
  - An “EF Attachments” document (“EF PDF”) (blue squares)
  - An **Attach PDF** button on the toolbar (item #2)

**Figure 37:** The **MESSAGES** file (#1), and the **Attach PDF** button (#2)



2. Click the “EF PDF” file from the forms tree to see a list of all documents entered on the **PDF** screen.
3. Click the “MESSAGES” file to view EF Messages, including EF Message 1512, which includes information on how to attach the required documents to the return.
4. Click the **Attach PDF** button. The **EF PDF Attachments** window displays the information entered on the **PDF** screen in data entry. An **X** in a red circle means the document has not yet been attached; a check mark in a green circle indicates an attached document (Figure 38).

Figure 38: The *EF PDF Attachments* window

5. Select the row of an unattached document, and click **Browse**.
6. Navigate to the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name).

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

## Removing PDF Attachments

You can remove a file attached to a return with the **Delete** button on the **EF PDF Attachments** dialog box, but then you will see EF Messages directing you to complete the attachment. Removing the attached file does not eliminate the requirement that you attach the document - that remains and produces EF Messages.

To remove an attached file and also eliminate EF Messages associated with it:

- If it is listed on the **PDF** screen in data entry (a preparer attachment), removing the entry eliminates EF Messages associated with the attachment.
- For a program attachment, you must modify data entry so that the attachment is no longer necessary.

For more information to see links to relevant articles, see the Drake Software Knowledge Base article, 11209: Attachments for E-filing - Removing a Return Attachment.

## Importing Trial Balance Information

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

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

To use this feature, you need a copy of your client's financial statements containing all the data needed to prepare a trial balance. This function does not export data. It creates an Excel spreadsheet in the form of a template that you can complete and import back into the return. All templates are created with \$0 amounts entered—you enter the appropriate financial data on the template, and totals are displayed at the bottom. When data is entered, if credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount. You can correct entries until a successful trial balance is displayed, and then import the completed trial balance information back into the return.

## Preparing to Use Trial Balance Import

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

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

- **Activate Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro settings are set to “Disable all macros with notification.”
- **(optional) Disable Autobalance in Drake Tax** — When autobalance is disabled, the program is prevented from automatically adjusting the year-end retained earnings or capital amounts, thus allowing you to see any discrepancies in the balance sheet. Autobalance can be disabled in two ways (a comparison of these methods can be seen in Figure 39 on page 86):
  - *(globally)* From the **Home** screen of Drake Tax, select **Setup > Options > Calculation & View/Print** tab, and mark **Turn off auto-balance of the balance sheet**.
  - *(per-return basis)* If you have autobalance enabled from setup options, you can disable it for a single return. To do so, from the **PRNT** screen of the return, select **Reverse autobalance setup option**. Alternately, if you have autobalance *disabled* from setup options, making a selecting from the **PRNT** screen will balance Schedule L for the open return.

Figure 39: Methods for disabling autobalance

**Select to Turn On**

- ☐ Autocalculate tax return when exiting data entry
- ☒ Display client fee on Calculation screen
- ☒ Print only one overflow statement per page
- ☒ Go directly to form when accessing View or data entry mode
- ☒ Audible notification of calculation error messages
- ☒ Mask SSN, EFIN, PTIN on Client and Preparer Sets
- ☒ Turn off auto-balance of the balance sheet

**Other Return Options**

- ☐ Reverse autobalance setup option
- ☐ Prepare a Form 7004 extension

Screen 1 must be completed for an extension.

Overriding global autobalance setting on a per-return basis

Setting autobalance preference for all returns

- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the partnership does not meet the filing requirement. If this is the case, you will have to override the default setting in order to have the amounts displayed on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen, and select the **Force Schedules L, M-1, M-2, & K-1 Section L** box.
- **Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail worksheets (CTRL+W) that are *not* required. For example, the IRS does not require a detail worksheet for the **Other income (itemize)** field on the **INC** screen; if a return has a detail worksheet for that field, the trial balance will not be imported correctly into the return. Detail worksheets are indicated by red shading, as shown in Figure 40.

**Income**

Form 1065 - Income

<b>1a</b>	Gross receipts or sales.....	5000
<b>1b</b>	Returns and allowances.....	5000
<b>2</b>	Cost of goods sold.....	1125-A
<b>4</b>	Income from other partnerships, estates, and trusts....	K1P Screen or K1F Screen
<b>7</b>	<b>Other Income</b>	
	Interest income on receivables.....	100
	Recoveries of bad debts deducted in earlier years.....	100
	Section 481 adjustments.....	100
	State tax refund (cash basis).....	100
	Taxable income from insurance proceeds.....	100
	Other income (itemize).....	1000

NOTE: Credits from Forms 6478 and 8864 automatically flow to Form 1065, page 1, li

Figure 40: Example of an "unnecessary" detail worksheet

Remove unnecessary detail worksheets prior to import. See "Detail Worksheets" on page 88 for more information on using detail worksheets in the trial balance.

## Preparing Financial Data for Import

First, if you haven't already, create a client file (open a new return) in Drake Tax 2020, or update an existing client file from the prior year. Then, create a trial balance worksheet (see "Opening a Template" below).

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

### Opening a Template

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

To open a trial balance template for a return:



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

The trial balance template is displayed in Microsoft Excel.

### File Location

Whenever a new template is opened, the tax program assigns it a default file location and name. Trial balance templates are saved in the "TB" folder of your Drake20 program.



### NOTE

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

### Template Structure

The trial balance template consists of six columns. These columns are described in Table 4.

**Table 4:** *Trial Balance Template Columns*

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake Tax to which the debit or credit amount is imported
Reported on	Location of the amount on the printed return
Other Information	Additional details for preparers; see "Details for Preparers" on page 91.

Displayed at the bottom of the trial balance worksheet is the calculated amount for Schedule M-1, line 1; the credit and debit totals; and a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount. Initially, as this is a template, all of the above listed amounts will be zero (\$0).

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

## Entering Financial Data

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



### NOTE

Some data cannot be imported from the trial balance worksheet into the tax program and must be entered directly into the data entry fields within the Drake Tax program. For more on these categories of data, see "Special Conditions" on page 91.

#### Direct Entry

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

#### Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 41). If these cells do not work, you may need to activate them by enabling the content of the Excel sheet (see the Note in "Opening a Template" on page 87).

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

Figure 41: An example of cells that require worksheets



Click a worksheet button to open a worksheet in a new tab of Excel. Figure 42 shows an example of the “Other Income” worksheet.

Statement Required - Other Income		
Form 1065, page 1, line 7		
Line Description	Amount	Import to:
2 Interest income on receivables	\$0	INC, line 7
3 Recoveries of bad debts deducted in earlier years	\$0	INC, line 7
4 Section 481 adjustments	\$0	INC, line 7
5 State tax refund (cash basis)	\$0	INC, line 7
6 Taxable income from insurance proceeds	\$0	INC, line 7
7 Other	\$0	Other Income Detail
Total other income		\$0

Click to return to TB

PTR TB Other Income

Figure 42: The “Other Income” worksheet

To return to the previous worksheet, click the **Click to return to TB** button above the worksheet tabs (#1 in Figure 42) or click the **PTR TB** tab (#2). Note that a detail tab might include one or more additional detail worksheets (#3).

## IMPORTANT



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

**Totals** Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount (Figure 43).

Net Income (Loss) = Schedule M-1, line 1		
\$3,359		
Totals	\$13,338	\$4,071
	OUT OF BALANCE?	\$9,267

Figure 43: Viewing the results of the trial balance

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



## NOTE

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

Once all necessary data for the client's return has been entered and the worksheet is in balance, click the **Save** icon or select **File > Save** from the menu bar. To rename a file when saving, select **File > Save As**. Trial balance templates are saved in the "TB" folder of your Drake20 program.

## Importing Data into a Return

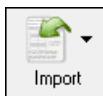
Once a trial balance worksheet has been set up for a client in Drake Tax, the trial balance information can be imported into the program and calculated into the return.



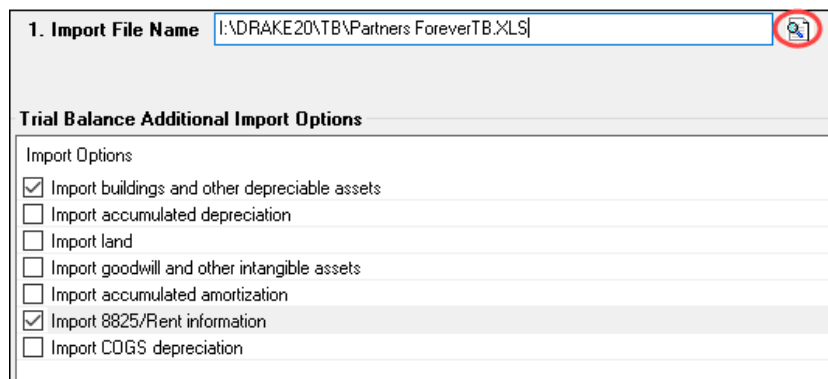
## IMPORTANT

Importing a trial balance overwrites existing data in the return. You should back up or archive the return prior to importing a trial balance, so that you have the option of restoring the original data. See "Archive Manager" in Chapter 5 of the *2020 Drake Tax User's Manual* for further information on creating archives of existing returns.

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Next**.
4. Enter the name of or select the trial balance file to be imported. Use the **Browse** feature (red circle in Figure 44 on page 91) if necessary. By default, each trial balance file is an Excel (.xls) file displaying the client's name and ending in "TB" for trial balance, as shown in the example in Figure 44. (See "File Location" on page 87.)

**Figure 44:** Importing the Trial Balance Worksheet into a return


**1. Import File Name** I:\DRAKE20\TB\Partners ForeverTB.XLS

**Trial Balance Additional Import Options**

Import Options

- ☒ Import buildings and other depreciable assets
- ☐ Import accumulated depreciation
- ☐ Import land
- ☐ Import goodwill and other intangible assets
- ☐ Import accumulated amortization
- ☒ Import 8825/Rent information
- ☐ Import COGS depreciation

5. Select any desired **Trial Balance Additional Import Options**.
6. Click **Next**, and wait for the import to be completed.
7. Click **Finish**.

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



## NOTE

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

## Special Conditions

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

### Details for Preparers

Most trial balance items are imported directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 45 go to screen **L**, line 1, column d, in the program and are shown on page 5, line 1, column d of the 1065 return.

Debit	Credit	Import to:	Reported on:
\$12,345		L, line 1, col d	1065, page 5, line 1, col d
\$5,674		L, line 2a, col c	1065, page 5, line 2a, col c

**Figure 45:** Indication of where an amount will go in Drake Tax and Form 1065

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

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

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

All “does not import” notes are accompanied by further instructions in the “Reported on” column, as shown in Figure 46.

## SCH2 Detail

Typically, a balance sheet subsidiary schedule (SCH2 detail screen for Schedule (screen) L) is required for an item marked “does not import” on the trial balance. (Figure 46)

Account Title	Debit	Credit	Import to:	Reported on:	Other Information
U.S. government securities	\$0		L, line 4, col d	1065, page 5, line 4, col d	
Tax-exempt securities	\$0		L, line 5, col d	1065, page 5, line 5, col d	
Other current assets	\$0		Other current assets detail	SCH2 detail required in Drake	does not import
Loans to partners	\$0		L, line 7a, col d	1065, page 5, line 7a, col d	
Mortgage and real estate loans	\$0		L, line 7b, col d	1065, page 5, line 7b, col d	
Other investments	\$0		Other investments detail	SCH2 detail required in Drake	does not import

**Figure 46: SCH2 screen is required for “does not import” items**

To complete a SCH2 detail screen in the tax program:

Screen code:  
SCH2

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

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

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

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

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

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



## NOTE

Enter **8825** and **RENT** depreciation amounts in the detail worksheets of the trial balance sheet for importing purposes. Be aware, however, that the **8825** and **RENT** screens in the program will have to be edited if any **4562** detail screens (see Figure 47) are used.

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

Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry (Figure 47). Enter depreciable asset data on a **4562** detail screen, or enter the total depreciation on the override screens.

Depreciable Assets	
4562	Depreciation - Detail Items - (2)
6	4562 Part 1
7	4562 Parts 2 and 3
8	4562 Parts 4, 5a, and 6
9	4562 Parts 5b and 5c
10	Additional Depreciation Elections

Figure 47: 4562 detail screens



## NOTE

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

## Rental Expenses

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

The partnership trial balance includes lines for rental income and expenses. Both rental expense items require a trial balance detail worksheet (Figure 48).

Tax-exempt interest		\$2,882	K, line 18a	Sch K, line 18a, Sch M-1, Line 6	
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2	optional
Total real estate rental expenses	\$0		<b>Real Estate Rental Exp</b>	requires detail	optional
Gross other rental income		\$0	RENT, line 1	Rent, line 1	optional
Total other rental expenses	\$0		<b>Other Rental Exp</b>	requires detail	optional

**Figure 48:** Entering data for rental income and expenses on the trial balance worksheet

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

Because the trial balance worksheet has only one detail screen per rental type, the importing function does not accommodate entities with multiple rental properties or expenses; however, the following procedure allows the trial balance to remain in balance if there are multiple rental properties or expenses.

To accommodate entities with multiple rental properties or expenses:

1. Calculate the totals for both types of rental expenses.
2. Enter the income totals on the trial balance sheet and the expense totals on the applicable detail sheets (click the buttons seen on Figure 48).
3. Ensure that the balance sheet is in balance.
4. Import the trial balance worksheet into the return. The applicable screens in data entry now contain the figures entered on the trial balance worksheet.
5. Compare the M-1, line 1, amount on the trial balance to the M-1, line 1, amount on the calculated return to ensure that they match.

## NOTE



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

6. Complete all **8825** or **RENT** screens in data entry, as applicable, for the individual rental properties or items.
7. Delete the **8825** and **RENT** screens that were imported from the trial balance (the screens reflecting the total rental expenses).
  - To delete a screen in data entry, open the screen, and press CTRL+D. If a multiple forms list appears, be sure that the screen to delete is selected, then click **Delete**.

## Other Program Imports

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

## 4562 Import

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

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

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

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

Use the worksheet to enter data for screen **4562**. Each column aligns with its designated field on the **4562** screen—in other words, the spreadsheet columns follow the same order as would pressing TAB to navigate from one field to the next in Drake Tax.

Enter information into the spreadsheet as you would for a Form 4562. Note that if a column on the template is colored red, any data entered into said column will *not* be imported into Drake Tax. Be sure to use a separate row for each screen **4562**. Once data entry is complete, save the Excel document, and import the completed sheet back into Drake Tax.

To use the 4562 Import feature:

1. Open a client's tax return.
2. From the **Data Entry Menu** toolbar, click **Import > Form 4562 Import**.
3. When you are ready to begin the import process, click **Next**.
4. When the **Form 4562 Import - Step 1** window is opened, click **Browse**, find your worksheet, and click **Open**. Upon a successful upload, the **Form 4562 Import - Step 2** window is opened automatically, with a condensed version the recently entered data appearing in the **Form 4562 Detail Information** section.
5. From the **Start import at** drop list, select the row where you wish to begin the import. (If the first row in the asset list is column headers, begin the import with row 2.) Click **Next**.
6. Click **Import**.

### NOTE



Any data imported using the 4562 Import feature does *not* override already existing data in Drake Tax. Imported data will always create

additional **4562** screens separate from those which are already present.

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

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

## Form 8949 Import

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

To successfully import transaction information from a worksheet into Drake Tax, the worksheet must be correctly formatted. (GruntWorx Trades are already properly formatted.) The best and quickest way to get a properly formatted Excel worksheet is to download a template from Drake Software. To do so:

1. From the **Home** window toolbar in Drake Tax, click **Support > Knowledge Base**.
2. When the Drake Software Knowledge Base is opened, in the **Quick Search** field in the top-right corner of the window, type 10139, and click the magnifying glass icon on the right.
3. After the search has been completed, click **10139: Schedule D, Form 8949, GruntWorx Trades Import** from the **Search Results**.
4. Scroll to the bottom of the article and click the link: **Drake20 Blank Excel Spreadsheet with 8949 Import Headers**. (There is also a worksheet for years 2016-2019, and 2015 and prior.)

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





## IMPORTANT

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

Enter information into the spreadsheet as you would on screen **8949**. Be sure to use a separate row for each screen **8949**. Once data entry is complete, save the Excel document, and import the completed sheet back into Drake Tax.

To use the 8949 Import feature:

1. Open a client's tax return.
2. From the **Data Entry Menu** toolbar, click **Import > Form 8949 Import**.
3. In the **Form 8949 Import** window, review the example spreadsheet format. When you are ready to begin the import process, click **Next**.
4. When the **Form 8949 Import - Step 1** window is opened, click **Browse**, find your worksheet, click **Open**. Upon a successful upload, the **Form 8949 Import - Step 2** window is opened automatically, with a condensed version the recently entered data appearing in the **Form 8949 Transaction Information** section.
5. From the **Start import at** drop list, select the row where you wish to begin the import. (If the first row in the asset list is column headers, begin the import with row 2.) Click **Next**.
6. Click **Import**.

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

## Form 3115, Application for Change in Accounting Method

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



## NOTE

Form 3115 must *always* be paper-filed.

Applicants filing Form 3115 should refer to IRS instructions for general automatic change procedures and for a list of automatic changes to which the automatic change procedures 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** section, located under the **Other Forms** tab of the **Data Entry Menu** (Figure 49). 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

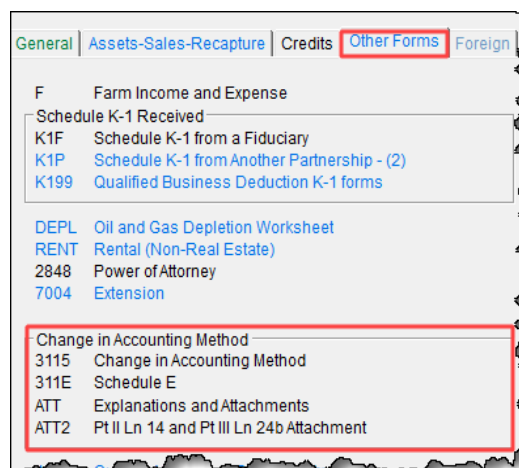


Figure 49: Form 3115 screens

When you open screen **3115**, the program displays the first of six screen tabs. As shown in Figure 50, you can access the various **3115** screens by clicking a tabbed link at the top of any of the **3115** screens.

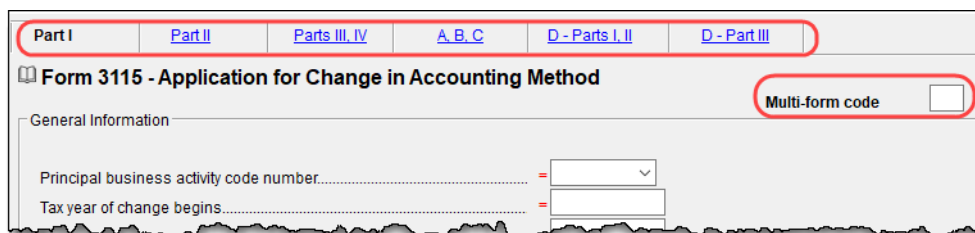


Figure 50: Tab links for screen 3115

### Multi-form Codes

All **3115** and related screens contain a **Multi-form code** text box (shown in Figure 50) 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. If only one Form 3115 is being submitted, it is not necessary to enter anything in the **Multi-form code** box.

## TIP



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

### Notices of Missing Attachments

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

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

## NOTE



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

## EF “Notice” and EF “ACK” Pages

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

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

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

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

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