

SUPPLEMENT:
S CORPORATIONS (1120-S)

DrakeTax®

Drake Tax

Supplemental Manual

1120-S

Tax Year 2021

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Table of Contents

What's New in Drake Tax for 1120-S 11

Program Changes for 2021 12

1120-S Returns in Drake Tax 14

Updating a Prior-Year Return in Drake Tax 14
Indicating an S Corporation 15
Other Information and Overrides 16

1120-S Header Information 16

Name and Address 17
Tax Year 18
Boxes A – J 21

Income and Deductions 21

Gross Receipts 22
Cost of Goods Sold (Form 1125-A) 22
Ordinary Gains and Losses 24
Other Income (Loss) 24
Compensation and Wages 25
Compensation of Officers (Form 1125-E) 26
Repairs and Maintenance 27
Bad Debts 27
Rents 28
Taxes and Licenses 28
Interest 29
Depreciation 29
Depletion 30
Advertising 30
Pension and Profit-Sharing 30
Employee Benefits Program 31

Other Deductions 31

Tax and Payments 32

Net Passive Income 32
Schedule D 32
Estimated Taxes 33
Payments with Extensions 33
Tax Paid on Fuels 34
Underpayment of Estimated Tax 34
Late-Filing Penalty 34

Direct Deposit of Refunds 35

International ACH Transactions 35

Electronic Funds Withdrawal 35

Program Defaults and Overrides 36
Required Information 36
Withdrawal from Multiple Accounts 36

Filing an Extension 37

EF "Notice" and EF "ACK" Pages 37

Signing the Return 38

Drake Portals e-Sign Fields 39
Form 8879-S Instructions 40

Amending a Return 40

Additional Information 41

Schedule B (Form 1120-S) 41
Business Interest Expense Limitations 42
QOF Investments 42
State-Specific Information 43

Schedule K (Form 1120-S) 46

Navigation 46

Passing Through QBI Information 48

QBI Statements and Worksheets 49
Denoting Service Trades or Businesses 50
Reporting Section 199A Items 51
Safe Harbor for Rental Properties 53
Aggregation, BANs, and PBANs 53
Oil and Gas Depletion Worksheet 56
Schedule K - Business Activities Statement 57

Sch. K-1 for 1120-S (Shareholder Info.) 57

Control Number 57
Rounding Shareholder 58
Officer Only 58
Name Field 59
Signing Officer 59
Stock Ownership 59
Ownership and Participation 59
Loans from Shareholders 60
Responsible Party 60
Ownership Changes 61
Business Identity Theft 61
Screen **K1** *Overrides* 62
Sorting and Viewing Schedules K-1 62
IRS K-1 Codes in Drake Tax 64
Multiple Shareholders 64
Overriding Data for a Single Schedule K-1 65
Foreign Addresses 65
K-1/K-3 Export 65
Supplemental Information 67
Domestic Production Activities Deduction 68
K-1 Cover Letters 68
Shareholder's Adjusted Basis Worksheet 71

Schedules K-2/K-3 72

Schedule L - Balance Sheet Per Books 72

Schedules L and M-2 73

Flow of Information.....74
The **SCH2** *Screen*.....74
Autobalance.....76

Schedules M-1 & M-3.....77

Schedule M-1.....77
Schedule M-3.....78

Schedule M-2 (Analysis of Accounts).....80

Entering Distributions.....80
Expenses Paid Using Forgiven PPP Loans.....82

Rental Activities.....83

Line 14, Depreciation.....83
Line 15, Other Expenses.....84
Qualified Business Income on Screen **8825**.....85

Credits and Adjustments.....85

Elections.....86

Making Changes on the Fly.....88

Suppressing/Forcing Items.....88
Overriding Other Setup Options.....90
Security Information.....90

Electronic Filing.....90
Name Control.....91
Forms for Foreign Corporations.....92

Form 5471, Information Return.....92
Forms 965.....92
FinCEN Form 114.....93

PDF Attachments.....93

The PDF Attachment Process 94
Removing PDF Attachments 97
Signing Generated Documents 98

Importing Trial Balance Information 98

Preparing to Use Trial Balance Import 98
Preparing Financial Data for Import 100
Entering Financial Data 102
Saving a File 104
Importing Data into a Return 104
Special Conditions 106

Other Program Imports 111

Form 4562 Import 111
Form 8949 Import 113

Form 3115, Change in Acct. Method 114

Changing Accounting Method Screens 115
Multi-form Codes 115
Notices of Missing Attachments 116

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S Corporations (1120-S)

The basics of data entry for an S corporation (1120-S) return are the same as for a 1040 return. Navigation through data entry, field- and screen-level helps, and keyboard shortcuts all function as they do in the 1040 program. See the **2021 Drake Tax User's Manual** for the basics of using the program. (The manual is available on the installation CD and from your User Account (the Drake Support Website): **Support.DrakeSoftware.com > Support > Documents > Manuals**.)

What's New in Drake Tax for 1120-S

Drake Tax is programmed to conform to the latest IRS rules and regulations. The 2021 program reflects all changes to forms, credits, and deductions. For details on the new regulations for the 2021 tax year, see the IRS instructions for Form 1120-S.

IMPORTANT

- As of the time of this manual's publication, screens and screen changes regarding new Schedules K-2 and K-3 have not been released for the 1120S package. Necessary program updates for these schedules are expected to be released late-February.

- Be sure to review the 2021 *Drake Tax User's Manual*—available from your User Account at *Support.DrakeSoftware.com*—for details on the changes to the tax program and practice management tools.

Program Changes for 2021

Following are some of the changes the IRS made for the 2021 filing season and the resulting changes and enhancements made to Drake Tax 2021.

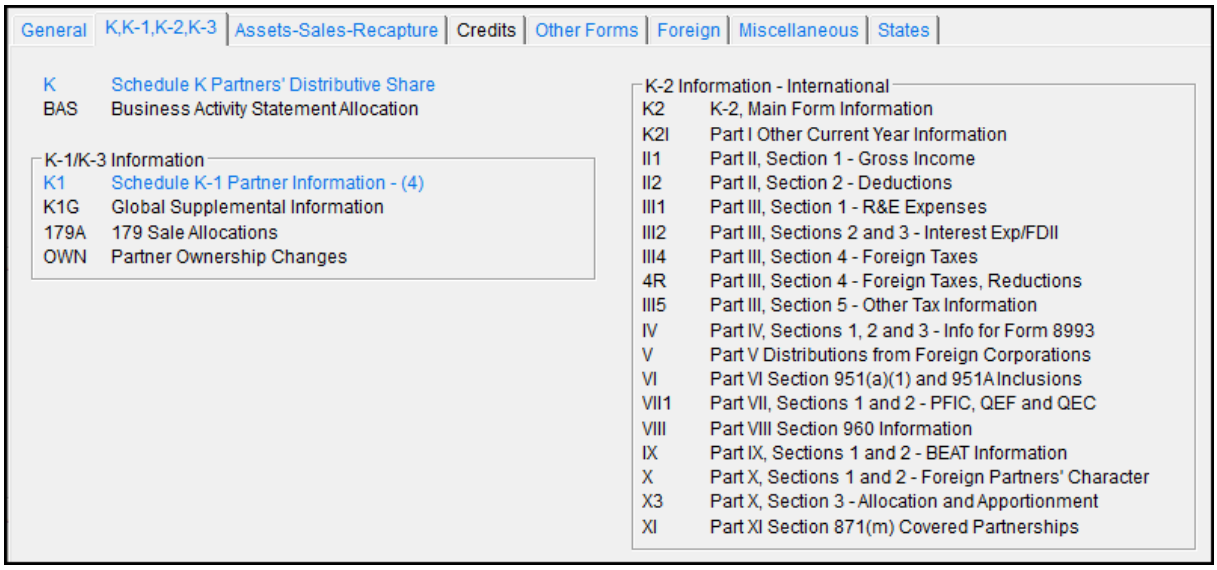
Schedule K-2

— Shareholders' Pro Rata Share Items — International —

In prior years, line 14 of Schedule K for Form 1120-S was used to report foreign transactions, requiring that statements be attached. Beginning in tax year 2021, items of international tax reference are reported on Schedule K-2. Largely, Schedule K-2 is an informational form, where all foreign pro rata share items are listed.

Instead of entering foreign transactions on screen **KFT** (now retired due to Schedule K-2), this information should be entered on the relevant Schedule K-2 screen; these screens are accessed from the new **SBS K, K1, K2, K3** tab of the **Data Entry Menu**. Refer to the main Schedule K-2 screen, **K2**, for information on where to report specific types of transactions and links to applicable screens. Only the pages of Schedule K-3 that contain data are produced.

Figure 1: New **SBS K, K1, K2, K3** tab



Once items of international tax reference are entered, the necessary Schedule K-2 pages are produced in View/Print mode. All Schedules K-2 are e-filed as attached PDFs with 1120-S returns.

Note

The following screens have been moved to the new **PTR K, K1, K2, K3** tab:

- **BAS** (**Business Activity Statement Allocation**)
- **K** (**Schedule K Partners' Distributive Share**)
- "K-1 Information" screens (**K1E, K1G, LOAN,** and **OWN**)

Schedule K-3

— Shareholder's Share of Income, Deductions, etc. — Int'l. —

When Schedule K-2 is generated in the 1120S package, a copy of Schedule K-3 is produced for each shareholder. This schedule is a breakdown of the shareholder's portion of foreign transaction income, deductions, credits, etc., indicating on which forms the receiving shareholder should report his or her share of foreign income.

Use the K-1/K-3 Export feature in View/Print mode to export Schedule K-3 data into an existing client's *individual* return. When exported into an individual return, the following Schedule K-3 data flows to a new **1116** screen:

- Gross income (Part II, Section 1)
- Deductions (Part II, Section 2)
- Foreign taxes (Part III, Section 4)

The tax return preparer should review Schedule K-3 and determine if other reported amounts are relevant to the individual's return. The preparer must enter any other data deemed necessary on the applicable screen of Drake Tax.

Expansion of Allowable Meal Expenses

The Consolidated Appropriations Act of 2021 creates a temporary exception to the section 274(n) 50% limitation for business expenses paid or incurred after 2020 and before 2023 for food or beverages provided by restaurants. Entities meeting the criteria can elect to deduct 100% of eligible purchases by entering the cost of qualified meals in the **Meals 100% allowed**, line 13, field on screen **DED**. Qualifying expenses can also be entered on screen **8825**, line 15, **Other (list)**. See IRC § 274(n) and Notice 2021-25 for further information.

Screen **PPP** (Paycheck Protection Program)

In tax year 2020, eligible expenses paid with funds from a Paycheck Protection Program (PPP) loan could be deducted, even if the loan had been forgiven. Taxpayers who did not claim these eligible expenses on their 2020 tax return can make a new safe harbor election under Rev. Proc. 2021-10 to claim eligible deductions on their 2021 tax return as long as the 2020 return was timely filed (including extensions).

As PPP loan funds can be used for many things, the preparer must determine where to enter the adjustment for eligible expenses in Drake Tax. After entering PPP expenses, complete screen **PPP** to generate the required election statement "Revenue Procedure 2021-20." Preparers can access this screen from the **Miscellaneous** tab of the **Data Entry Menu**.

— Screen PPP2 —

Use screen **PPP2** to produce a statement reporting the entity's loan forgiveness, indicating when and how the entity reported this forgiveness. Screen **PPP2** is available from the **Miscellaneous** tab of the **Data Entry Menu**.

1120-S Returns in Drake Tax

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

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

Updating a Prior-Year Return in Drake Tax

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

- (*recommended*) As a single return (updated one at a time) using **Last Year Data > Update Clients 2020 to 2021**
- When you open the return for the first time in the 2021 program and are prompted to update it
- (*not recommended*) With all other returns in the program using **Last Year Data > Update Clients 2020 to 2021**

Indicating an S Corporation

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

S Corporation Election

Screens:
1, 2553, SH

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

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

When you have completed the **2553** screen, open the **SH** screen—click the **Shareholder Information** link on screen **2553** or the **SH** link on the **Miscellaneous** tab of the **Data Entry Menu**—and complete a screen for each shareholder. (Press PAGE DOWN for additional **SH** screens.) Type in the **Name**, **Address**, number of shares, date the shares were acquired, and either the **SSN** or **EIN** of the shareholder.

An **SH** screen must be completed for each shareholder in order to complete Part I of Form 2553.



NOTE

If attaching a signed Form 2553 to the return as a PDF document, mark the **Attaching Form 2553 as a PDF document** box on screen **1.** (See item **N** of the FAQs for more on attaching PDF files to e-filed returns.) If not sent as a PDF, the form must be mailed separately to the IRS *before* filing the tax return. See the Form 2553 instructions at *irs.gov*

Changing File Type

To change a "C" corporation to an S corporation (1120 to 1120-S) within Drake Tax:

1. From the **Home** window menu bar, select **Tools > File Maintenance > Change File Type** to open the **Convert Client Data File Type** search window.

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

Other Information and Overrides

Screen: **1**

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

- **Resident State** — If the corporation has a mailing address in one state but does business in another, select the state in which the corporation does business from the **Resident state** drop list.
    - Selecting certain states from the **Resident state** drop list activates the **Resident City** drop list. Select a city to prepare the appropriate city tax return. If the **Resident City** drop list is inactive, a city return is either not required or not available.
- **Miscellaneous Codes and Overrides** — The **Other Information** section of screen **1** includes fields for miscellaneous codes, invoice numbers, and several override fields. See "Different Firm, Preparer, or ERO" and "Customized Drop Lists" in Chapter 2 of the 2021 Drake Tax User's Manual for more information.



Tip

You can bring your miscellaneous codes forward each year when you update the previous year's returns. Select the **Update Misc. Codes on Screen 1...** option during the update process (**Last Year Data > Update Client 2020 to 2021**) for returns in the federal business packages.

1120-S Header Information

Screen **1** contains fields for the general information that is printed in the top section of page 1 of Form 1120-S.

Name and Address

Screens: **1, 2**

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

"Doing Business As"

Screen: **1**

(*optional*) Anything typed into the **DBA** field in the **Name and Address** section of screen **1** will be printed below the legal name of the corporation in the "Name" section of the main form (and on certain other forms, such as Schedule K-1).

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

Continuation Line

The **DBA** field on screen **1** can also serve as a "continuation" line for entity names that are too long to fit into the legal name field. Be aware, however, that not all federal forms accept data from a continuation (or DBA) line. For those forms, only the data entered in the legal name field is used.



NOTE

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

"In Care Of"

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

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

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

Tax Year

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



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

First-Year Returns

An S corporation filing a first-year return must use the fiscal-year fields in the **If Not Calendar Year** section of screen **1** if the date of election as an S corporation occurs *after* the start of the tax year—that is, if the date entered on line **A** of the **General Information** section of screen **1** comes after January 1, 2021.

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

Short-Year Returns

Screens:
1, YEAR

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

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

To enter short-year information:

1. Enter short-year dates on screen **1** in the **Fiscal year begins** and **Fiscal year ends** fields, even if the firm uses the calendar year for full-year returns. (These dates appear on the top of the federal form.)
2. Click the **Year** link to open the **YEAR** screen.
3. Make your short-year selection from the **Other short-year reason** drop list. Your explanation appears at the top of the first page of the tax return. If you do not select an explanation, an EF Message is generated with the return, and the return cannot be e-filed
4. If you selected "15 – General Explanation" from the **Other short-year reason** drop list, type details of the reasons for filing a short-year return in the **Explanation** text box. This information appears as "Statement 1935" in View/Print mode but is not printed on the front page of the return.



NOTE

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

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

— Electing a 52–53-Week Year —

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

1. In the **If Not Calendar Year** section of screen **1**, enter the **Fiscal year begins** and **Fiscal year ends** dates. Use MMDDYYYY format.
2. Mark the **52–53-week tax year** box.



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



NOTE

Once a 52–53-week year is selected, the corporation must use that accounting period every year. To change accounting periods, the corporation must submit to the IRS Form 3115, Application for Change in Accounting Method. Turn to "Form 3115, Change in Acct. Method" on page 114 for more on filing Form 3115.

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

Inactive Returns

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

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

When the return is calculated, the program displays the words "Inactive Return" on the main form of the return (specifically, in the box above line 1c). Zeros ("0") are displayed where required by the IRS in order for amounts to be properly included in the e-file data.



NOTE

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

For detailed instructions on e-filing returns in Drake Tax, see the *2021 Drake Tax User's Manual*.

Boxes A – J

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

- Box A — "S election effective date"
- Box B — "Business activity code number" (From screen **1**, choose a code from the line **B** drop list, or click in the line **B** field and press CTRL+SHIFT+S to search for a code.)
- Box D — "Employer identification number" (EIN)
- Box E — "Date incorporated"
- Item G — Indicates first year as S corporation
- Item H — Check boxes for "Final return," "Name change," "Address change," "Amended return," and S election termination or revocation
- Item I — Number of shareholders during the year (completed automatically based on the number of Schedules K-1; number can be overridden on line **I** of screen **1**)
- Item J — Marks the "Aggregated activities for section 465 at-risk purposes" check box if any activities covered by the at-risk rules can be treated as a single activity. Mark the **Grouped activities for section 469 passive activity purposes** check box on screen **1** if any activities covered by the grouped passive activities can be treated as a single activity. (For more information, click in the box and press F1.)



NOTE

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

Income and Deductions

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

Gross Receipts

Screen: **INC**

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

Cost of Goods Sold (Form 1125-A)

Screen: **A**

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

NOTE

For information on completing lines 9a – 9f of screen **A,** click in a field and press F1 or consult the IRS instructions.

Inventory

Inventory amounts entered on lines 1 and 7 of screen **A** automatically flow to Schedule L, line 3, "Inventories." Notice that line 1 of screen **A** is an adjustment field. Amounts entered there adjust (are added to or subtracted from) relevant amounts flowing from Schedule F, Profit or Loss From Farming.

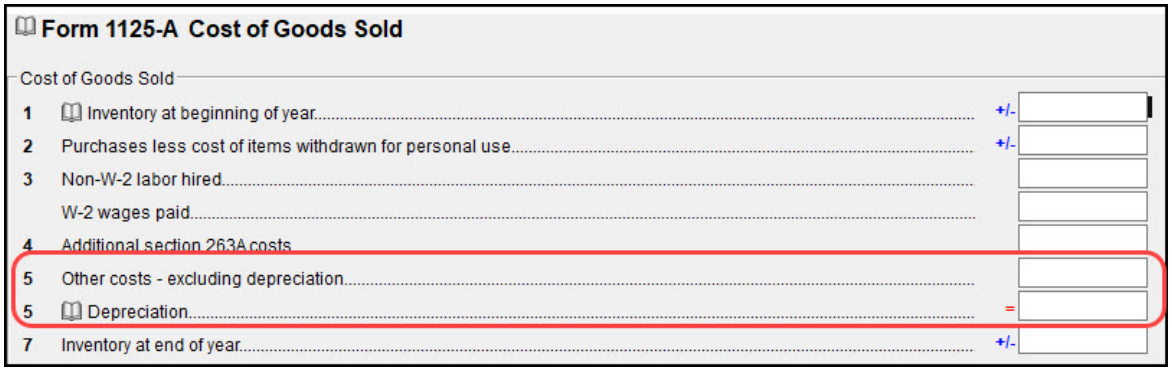
NOTE

The two **Inventories** fields on line 3 of screen **L** are override fields; anything entered there overrides the inventory data flowing from screen **A.**

Line 5, Other Costs

Line 5 of Form 1125-A, Cost of Goods Sold, is designated for any applicable costs not entered on the previous lines. In Drake Tax, two fields on screen **A** are provided for line 5: one for other costs excluding depreciation, and one for depreciation (Figure 2 on page 23).

Figure 2: "Other costs" lines on screen **A**



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

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

Note that the line 5 **Depreciation** field on screen **A** is an override field; an entry here overrides the following amounts:

- Line 5, "Other costs," of Form 1125-A
- The calculated depreciation amount flowing from a **4562** with **COGS** indicated in the **For** drop list.
    - As an example: If the total depreciation amount calculated from a COGS **4562** screen = $10,000 and $2,000 is entered on line **5** of screen **A**, an amount of $8,000 will flow to line 14 of Form 1120-S. Any amount entered on line **14b** of screen **DED** will further adjust this amount—as such, if $100 is entered on line **14b**, line 14 of Form 1120-S will be reduced to $7,900. Line 5 of Form 1125-A will, however, remain "$2,000" (as entered in the override field on screen **A**.)

NOTE

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

Importing Trial Balance to Form 1125-A

If using the trial balance import feature (see "Importing Trial Balance Information" on page 98), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* into the "depreciation" fields in Drake Tax data entry. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly.

Ordinary Gains and Losses

The amount on line 4 ("Net gain (loss) from Form 4797, line 17") of Form 1120-S flows from Form 4797, Gains and Losses from Sales of Assets. Screen **4797** is available from the **Assets-Sales-Recapture** tab of the **Data Entry Menu**. Amounts can also flow from screen **4562**, but only if that screen shows assets sold (lower-right quadrant of screen **4562**) and a **Property type** (drop list in upper-left quadrant of the **4562** screen).

Other Income (Loss)

Screen: **INC**

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

- Form 4136 credit adjustment
- 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

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



Note

The IRS does not require a Detail Worksheet (Ctrl+W) for reporting other itemized income; therefore, if you are using the trial balance import feature, do *not* include a Detail Worksheet for the line **Other income (itemize)** on screen **INC**—or for any line that does not *require* a Detail Worksheet. (Detail Worksheets are opened automatically when you type a number into a designated field.)

For more on the trial balance worksheet import process, see "Importing Trial Balance Information" on page 98.

Adjustments are made to the appropriate deductions/expenses lines for the credit amounts of the following unless the **Do NOT reduce (adjust)** check box is marked on the corresponding completed screen:

- Form 5884, Work Opportunity Credit — Screen **5884**
- Form 5884-A, Employee Retention Credit — Screen **588A**
- Form 6765, Credit for Increasing Research Activities — Screen **6765**
- Form 8820, Orphan Drug Credit — Screen **8820**
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips — Screen **8846**
- Form 8881, Credit for Small Employer Pension Plan Startup Costs — Screen **8881**
- Form 8844, Empowerment Zone Employment Credit — Screen **8844**
- Form 8941, Credit for Small Employer Health Insurance Premiums — Screen **8941**
- Form 8932, Credit for Employer Differential Wage Payments — Screen **8932**
- Form 8994, Employer Credit for Paid Family and Medical Leave — Screen **8894**

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

Compensation and Wages

Screen: **DED**

To override or adjust officer compensation and employee wages, open the **DED** screen. Drake Tax has two fields (line 7), each for officer compensation and employee salaries/wages: one for adjusting non-shareholders and one for shareholders.

NOTE

The officer compensation (shareholders and non-shareholders) fields are override fields and are generally used when Form 1125-E is not required. Entries in those fields override any calculations from screen **K1E** but do not change the calculations on Form 1125-E. These overrides do, however, change the total on line 7, "Compensation of officers," of Form 1120-S.

The **Salaries and wages to non-shareholders** field (line **8**) on screen **DED** is an adjustment field. An amount entered here is combined with any amounts entered in the **Non-W-2 labor hired** and **W-2 wages paid** fields on screen **F**, the total of which flows to line 8, "Salaries and wages," of Form 1120-S.

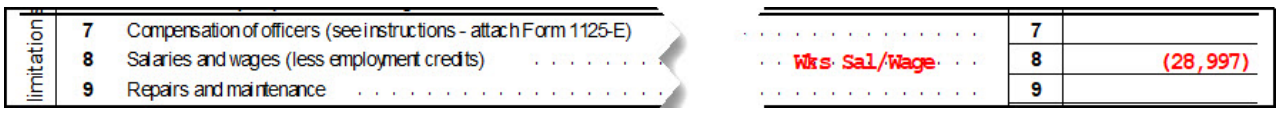
Credit Adjustments

A credit adjustment is made for the following forms on line 8, "Salaries and wages (less employment credits)," of Form 1120-S:

- Form 5884, Work Opportunity Credit — Screen **5884**
- Form 5884-A, Employee Retention Credit — Screen **588A**
- Form 8844, Empowerment Zone Employment Credit — Screen **8844**
- Form 8845, Indian Employment Credit — Screen **8845**
- Form 8932, Credit for Employer Differential Wage Payments — Screen **8932**
- Form 8994, Employer Credit for Paid Family and Medical Leave — Screen **8894**

The adjustment is indicated on Form 1120-S with the "Wks Sal/Wage" literal (Figure 3). Actual adjustments are shown on the "Wks Sal/Wage" worksheet in View/Print mode.

Figure 3: Salaries and wages adjustment



Compensation of Officers (Form 1125-E)

Screen: **K1E**

All information for shareholders and officers is entered using screen **K1E** (accessible from the **SBS K, K1, K2, K3** tab of the **Data Entry Menu**).

Each shareholder and officer should have a separate **K1E** screen. Enter the compensation paid to each officer using the **Officer's deductible compensation** field in the **Form 1125-E Officer Information** section of a separate screen **K1E**. The total amount of compensation for all shareholders and officers is calculated and carried to line 7 of Form 1120-S.

If you are using a **K1E** screen only to report information on an officer who is *not* a shareholder, select the **Reporting 1125-E information only** check box in the upper-left

quadrant, and complete all applicable fields. (Several sections of screen **K1E** are deactivated when you select the **Reporting 1125-E information only** check box.)

Press PAGE DOWN for a fresh **K1E** screen to enter information for additional officers.

For more information on completing officer and shareholder information, see "Sch. K-1 for 1120-S (Shareholder Info.)" on page 57.



NOTES

- The total amount of officer compensation (shareholders and non-shareholders) can be entered in the **Officer compensation** override fields (lines 7) of the **DED** screen. Turn back to "Compensation and Wages" on page 25 for more information.

- For privacy and security, you can "truncate" (hide certain digits of) SSNs on Form 1125-E by entering only the last four digits of the officers' SSNs in the **ID number** field on screen **K1E**. To do so, enter the first five digits of the SSN as "0"s (zeros), and then enter the final four digits of the SSN. For example, enter SSN 123-45-6789 as 000-00-6789.

Repairs and Maintenance

Screen: **DED**

Enter repair and maintenance costs on line 9 of the **DED** screen. An amount entered in this field is combined with (or subtracted from) the amount, if any, entered in the **Repairs and maintenance** field (line 25) on screen **F**.

Bad Debts

Use the **Bad debts** field (line 10) on the **DED** screen to enter the total debts that became worthless in whole or in part during the year, but only to the extent that such debts related to a trade or business activity.



NOTES

- Enter deductible nonbusiness bad debts as a short-term capital loss on screen **8949** (Sales and Other Disposition of Assets).

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

Rents

Use line **11** on the **DED** screen to enter rent paid on business property used for a trade or business activity.

If the corporation rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the entity in the **Rents** field of screen **DED**, and then complete Part V of Form 4562 (screens **8** and **9**).

NOTE

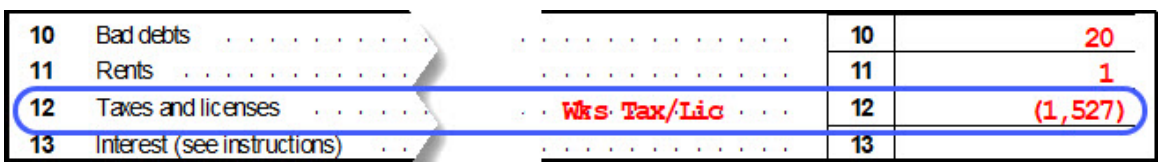
The **Rents** field is an adjustment field. An amount entered here is combined with (or subtracted from) the total amount, if any, of the **Rent** fields on screen **F**.

Taxes and Licenses

Enter tax and license amounts on the **Taxes and Licenses** screen (accessed by clicking the **Detail** link beside line **12** on the **DED** screen). The entered amounts are combined and the sum is generated on worksheet "Wks Tax/Lic" (available in View/Print mode), and that sum flows to Form 1120-S, line 12 ("Taxes and licenses").

Note that credit from Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, should be entered on screen **8846**, which is accessible via the **Credits** tab of the **Data Entry Menu** (or by clicking the **Detail** link on the **DED** screen and then the **Form 8846** link on the **Taxes and License** screen). These amounts also appear on the "Wks Tax/Lic" statement in View/Print mode and is referred to on line 12 with the literal "Wks Tax/Lic." (See circle in Figure 4.)

Figure 4: The "Wks Tax/Lic" literal on line 12 of Form 1120-S



To keep the literal "Wks Tax/Lic" (and any other generated literals) from appearing on the return, go to the **PRNT** screen and select **Suppress printing of form and attachment references**.

The fields for **St/City income taxes** and **St/City franchise taxes** on the **Detail** (**Taxes and License**) screen are override fields. Amounts entered in these fields override amounts calculated from entries on the **ES** screen and flow to the "Wks Tax/Lic" worksheet.

The state tax amount flowing from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used.

Interest

Using the 1120-S instruction guidelines, enter interest expense on line **13** of the **DED** screen. Note that the **Interest expense** field is an adjustment field. Any amount entered here is combined with (or subtracted from) the total amount, if any, entered in the **Interest** fields on screen **F**.

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

Depreciation

Screen:
4562

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

For more information on depreciation and the **4562** screen in Drake Tax, see the *2021 Drake Tax User's Manual.*

Line 14, Depreciation

Screens:
4562, DED

Line 14 of Form 1120-S is reserved for depreciation that is not claimed on Form 1125-A or elsewhere. While data from the **4562** screen flows to this line, the program also provides field **14b** on the **DED** screen specifically for depreciation that is claimed elsewhere.

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

- **Line 14a** — See field-level help for further instructions and information on how this field ties in to Form 4562.
- **Line 14b** — An entry on line **14b** of the **DED** screen adjusts the total amount on line 14 of Form 1120-S.

Note

For Form 1125-A depreciation, Drake Tax recommends entering depreciation on the **4562** screen and then selecting **COGS** from the **For** drop list. You can also use line 5 (**Depreciation**) of screen **A**. An entry on screen **A** overrides the line 5, "Other costs," amount on Form 1125-A and adjusts the calculated depreciation flowing from a COGS **4562** screen.

For more information, see "Cost of Goods Sold (Form 1125-A)" on page 22.

Depletion

Screen: **DED**

Enter depletion amounts on line **15** of the **DED** screen. If the corporation claims a deduction for timber depletion, complete and attach Form T, Forest Activities Schedules. (Attach as a PDF for e-filed returns. See "The PDF Attachment Process" on page 94.) Do not deduct depletion for oil and gas properties. (Each shareholder should figure depletion on these properties under section 613A(c) (11).)

Notes

- Form T, Forest Activities Schedules, is not available in Drake Tax. Visit *irs.gov* to download the form.
- For oil and gas depletion, see "Oil and Gas Depletion Worksheet" on page 56.

Advertising

Enter advertising expenses on line **16** of the **DED** screen.

Pension and Profit-Sharing

Enter pension and profit-sharing expenses on the **DED** screen. Click inside the field for line 17 and press F1 for information on what expenses to enter.

Note that the field for line 17 is an adjustment field. An amount entered here adjusts the amount flowing to Form 1120-S from Schedule F, line 23, "Pension and profit-sharing

plans." An entry here also reduces the expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs.

Employee Benefits Program

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

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

Note that the field for line **18** of the **DED** screen is an adjustment field. An amount entered here adjusts the amount flowing to Form 1120-S from Schedule F, line 15, "Employee benefit programs other than on line 23."

Other Deductions

Enter all other deductions in the **Other deductions (itemize)** field at the bottom of screen **DED** using a Detail Worksheet. Drake Tax incorporates the total into line 19, "Other deductions," on Form 1120-S.

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

- Amortization from Form 4562
- Credit adjustment from Form 8820, Orphan Drug Credit
- Exclusion from Form 8873, Extraterritorial Income Exclusion (when the **Report the exclusion on this form** drop list on screen **8873** is left blank)
- Credit from Form 8941, Credit for Small Employer Health Insurance Premiums
- Credit from Form 6765, Credit for Increasing Research Activities
- "Amortization" from screen **K1F**, line 9, code "C"
- "Other expenses" from screen **F**, line 32

Tax and Payments

Screen: **4**

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

Net Passive Income

Line 22a, "Excess net passive income or LIFO recapture tax," of Form 1120-S could apply to an S corporation if it was formerly a "C" corporation or if it engaged in a tax-free reorganization with a "C" corporation.

To determine if the corporation must pay the tax, complete the **Worksheet for Line 22a** section on the lower-half of screen **4**. If completing the IRS worksheet, enter the worksheet results on screen **4**. Enter LIFO recapture directly on screen **4**.



NOTE

To force the line 22a worksheet ("Excess Net Passive Income Tax Worksheet" (Wks NPIT)) to be printed, select the applicable box on screen **4**.

Schedule D

Screens: **8949/D, D2**

Use screen **8949** (available from the **Asset-Sales-Recapture** tab of the **Data Entry Menu**) to enter capital gains and losses. The net gain from screen **8949** flows to line 10, "Other income (loss)" of Schedule K if a **Property type** is selected on screen **8949**; if no **Property type** is selected, the net gain flows to the respective line 7 or 8 of Schedule K (determined by the **Type of gain or loss** selection on screen **8949**).

Use screen **8949** to enter data for Parts I and II of Schedule D (Form 1120-S), Capital Gains and Losses and Built-in Gains. Use the **D2** screen for Part III, "Built-in Gains," of Schedule D (Form 1120-S). For information on using screen **8949**, see "Capital Asset Reporting" in Chapter 5 of the *2021 Drake Tax User's Manual.* For directions on using the 8949 Import feature, go to "Form 8949 Import" on page 113.

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

Estimated Taxes

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

ES Screen

Screen: **ES**

The **ES** screen (available from the **Miscellaneous** tab or from the **ES Screen** link on screen **4**) provides a place to enter federal and state estimated taxes paid in 2021. If the return was updated from Drake Tax 2020, this information flows from the 2020 return. Note that this information is overridden by any entry in the **Current-year estimated tax payments** field on screen **4**.

Use the **ES** screen for 2022 estimated payments. Future-year amounts appear on the "Estimate Summary" worksheet, generated with the return. (You must enter a "voucher" or "overpayment" amount on screen **ES** to generate the Estimate Summary worksheet.) To enter the amount to be credited, use the **Amount of overpayment to apply to 2022** field. Note that this information is overridden by any entry in the **Amount to be credited to next year's estimated tax** field on screen **4**.

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

NOTE

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

For details on using the **ES** screen for filing federal estimated taxes and paying state estimated taxes, see "Estimated Taxes" in Chapter 5 of the *2021 Drake Tax User's Manual*.

Payments with Extensions

Screen: **7004**

To make a payment with an extension request, enter the amount being paid in the **Amount paid with extension** field at the bottom of the **7004** screen (available from the **Other Forms**

tab or from a link on screen **4**). If an extension was previously requested and a payment was made then, enter the amount paid on screen **4**, line **23b**, **Tax deposited with Form 7004**.

For electronic payments on extensions, the program produces Form 8878-A, the IRS e-file Signature Authorization for Form 7004. Screen **PMT** must be complete for this form to be generated. See "Filing an Extension" on page 37.

Tax Paid on Fuels

Screen: **4136**

Use screen **4136** (available from the **Credits** tab of the **Data Entry Menu**) to enter information for Form 4136, Credit for Federal Tax Paid on Fuels. Note that this form consists of four pages. Pages 1 and 2 (lines 1 – 8f) are covered on the first **4136** screen in Drake Tax. Press PAGE DOWN to reach pages 3 and 4 (lines 9 – 16b). Press PAGE UP or PAGE DOWN to toggle back and forth between the screens.

Underpayment of Estimated Tax

Screen: **2220**

For underpayment of estimated tax, complete all applicable fields on screen **2220**. (Note that this screen, available from the **Other Forms** tab of the **Data Entry Menu**, also consists of two screens. Press PAGE UP or PAGE DOWN to toggle back and forth between the screens.)

NOTE

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

Late-Filing Penalty

Screen: **4**

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

IMPORTANT

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

Direct Deposit of Refunds

Screen: **DD**

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

When filling out screen **DD**:

- If the federal refund is to go to the account listed, select **Yes** for the **Federal Account** selection; otherwise, select **No**. (If neither is selected, the program uses the default selection—**Yes**.)
- If a state refund is to go to the account listed, select the state abbreviation from the **State/city selection** drop list.
- Enter the name of the financial institution, the routing number (RTN), the account number, and the type of account (**Checking** or **Savings**). (For validation of entries, the RTN, account number, and type of account must be entered twice.)

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

International ACH Transactions

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

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

Electronic Funds Withdrawal

Screen: **PMT**

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

Program Defaults and Overrides

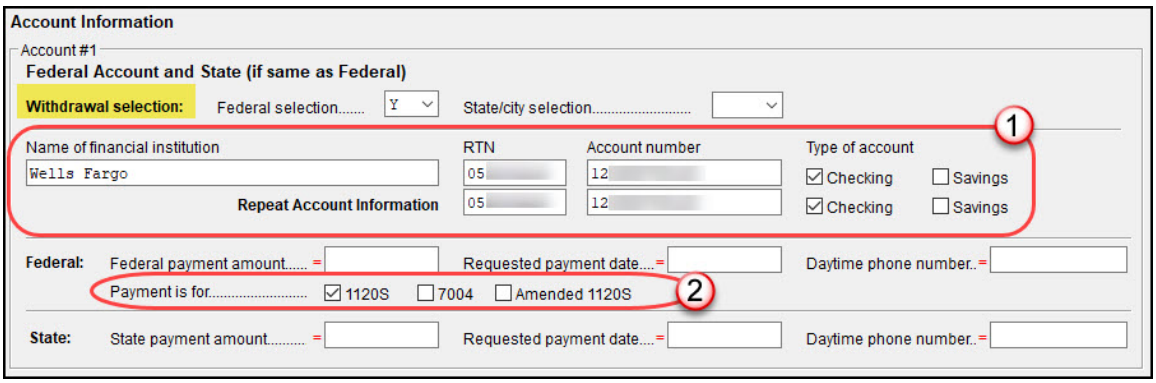
By default, the program indicates that the entire balance due (the "Amount owed" line (25) of Form 1120-S) is to be withdrawn on the return due date. To indicate otherwise, complete the **Federal payment amount** (or **State payment amount**) and the **Requested payment date** override fields on the **PMT** screen for the applicable payment.

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

Required Information

A **Withdrawal selection** of screen **PMT** is required if the program is to direct federal and state tax authorities to withdraw funds from the taxpayer's account.

Figure 5: A **Withdrawal selection** portion of screen **PMT**



The name of the financial institution, routing number (RTN), account number, and account type are required. As is the case with the **DD** screen, **RTN**, **Account number**, and **Type of account** data must be entered twice (item #1 in Figure 5).

The **PMT** screen must indicate the return to which the payment data applies (item #2 in Figure 5). Select the check box of the applicable return type.

Withdrawal from Multiple Accounts

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

Note

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

Filing an Extension

Calendar-year returns are due on March 15, 2022. By filing Form 7004, an S corporation can extend the deadline six months to September 15. Fiscal-year returns are due on the 15th day of the third month after the end of the corporation's tax year. Form 7004 extends the deadline six months.

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

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

- Go to the **7004** screen in Drake Tax (available from the **Other Forms** tab of the **Data Entry Menu**) and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen (available from either the **General** or **Miscellaneous** tabs) and select **Prepare Form 7004 based on screen 1 data**.

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-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 applicable state agency.

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

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

Note

In View/Print mode, various Return Notes appear on the "Notes Page." These Return Notes provide information or reminders about the return but do not prevent e-file. They are informational only.

To keep specific Return Notes from being generated whenever you view this return, go to the **Miscellaneous** tab and select screen **HIDE** (for federal Return Notes) or navigate to the **States** tab and select screen **HID2** (for state Return Notes). Type the number of the note to hide into one of the boxes (as well as the state abbreviation for state Return Notes), and then recalculate the return.

Signing the Return

Screen: **PIN**

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

Tip

If you mark the **Signs return** check box on screen **K1E**, that officer's information flows to the **PIN** screen automatically, eliminating the need to re-enter the officer's information. You still must enter PINs for the ERO and the officer, as well as the signature date on the **PIN** screen for e-file purposes.

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

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

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

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

- If the return preparer and ERO (entered in **Setup > ERO**) are the same:

- Go to **Setup > Preparer(s)** and ensure that the **Alternative Electronic Signature** box is marked for the preparer.
- Complete the **PIN** screen for the return.

- If the return preparer and ERO are *not* the same:
  - Go to the **PRNT** screen for the return and complete the field labeled **PIN for preparer's alternative electronic signature**. The PIN entered should match the one entered for the preparer in **Setup > Preparer(s)**. (For more information, press F1 in this field.)



NOTE

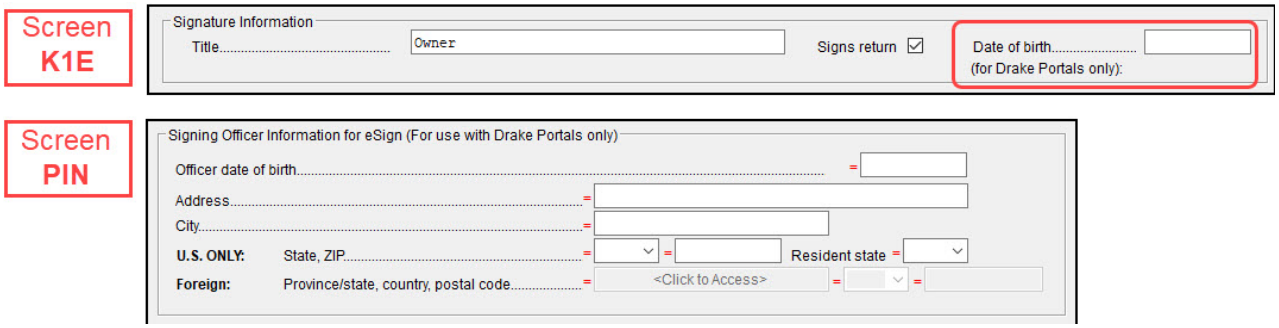
Setup > ERO & Account Information must be completed for e-file. For information on how to complete this setup window, see the *2021 Drake Tax User's Manual*. See the IRS instructions for further details on signature requirements.

Drake Portals e-Sign Fields

Screens **K1E** and **PIN** have sections designated for Drake Portals subscribers so that shareholders and owners can sign returns electronically.

The person who signs the return for the corporation (whether it be the signing shareholder, officer, or owner) is indicated on the **K1E** screen. To override the choice of signing shareholder, officer, or owner, use the override fields on the **PIN** screen.

Figure 6: Designated e-Sign fields for Drake Portals



Form 8879-S Instructions

You must receive the completed and signed Form 8879-S, IRS e-file Signature Authorization for Form 11120-S, *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-S, 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 the only instructions you want printed for all returns are federal e-file authorization instructions.
- With an open return, from the **PIN** screen, select **Yes** from the **Print filing instructions for Form 8878 and 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-S, see "Electronic Signatures" in Chapter 6 of the *2021 Drake Tax User's Manual*.

Amending a Return

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



IMPORTANT

When you amend a return in Drake Tax, the amended information replaces the original data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see "Archive Manager" in Chapter 6 of the *2021 Drake Tax User's Manual.*

To file an amended 1120-S return:

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

If amending just the Schedules K-1, go to each applicable **K1E** screen, select **Amended K-1**, and make needed changes.



NOTE

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

Additional Information

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

Schedule B (Form 1120-S)

Enter the principal business activity and product or service on screen **1**, items **B**. Enter the accounting method in the lower-left quadrant of screen **1**. This information flows to lines 1 and 2 of Schedule B (Form 1120-S).

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

If the answer to question 3 on screen **B** is "Yes," complete screen **B1**. (Press PAGE DOWN from screen **B**, type `B1` in the selector field and press ENTER, or click the **Schedule B-1** link beside line 3).

If the S corporation *directly* owned 20% or more—or *indirectly* owned 50% or more—of the total stock issued and outstanding of any foreign or domestic corporation, click the **B4A Screen** link on screen **B** to enter information about the domestic or foreign corporation owned. Use screen **B4A** as well if the S corporation *directly* owned 20% or more—or *indirectly* owned 50% or more—in the profit, loss, or capital in any foreign or domestic

partnership (including an entity treated as a partnership), or in the beneficial interest in a trust.

You can enter information for up to 10 corporations per **B4A** screen; to add more, use additional **B4A** screens as needed. (Press CTRL+PAGE DOWN.)

Business Interest Expense Limitations

Screen: **8990**

For tax years beginning in 2018, every taxpayer who deducts business interest is required to file Form 8990, Limitation on Business Interest Expense Under Section 163(j), unless an exception for filing is met. Click the **8990** link on the **Other Forms** tab of the **Data Entry Menu** to open screen **8990**.

IMPORTANT

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

QOF Investments

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

Form 8996

Screen: **8996**

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

In Drake Tax, use screen **8996** to complete Form 8996. Screen **8996** is available from the **Other Forms** tab of the **Data Entry Menu** or through the link on line 15 of screen **B**.

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

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

— QOZ Tract Numbers —

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

See Form 8996 and its related instructions for more information.

Form 8997

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

State-Specific Information

Resident State

Screen: **2**

The program automatically generates a return for the corporation's resident state. Use screen **2** (accessed from the **States** tab) to enter company information as it should appear on the state return.

NOTE

The **Company Information** fields on screen **2** apply for 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, numbers for identification, and fields for miscellaneous data that may be required by a state.

Contact Information

If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2** for the alternative data for any of the following entities:

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

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

Other States

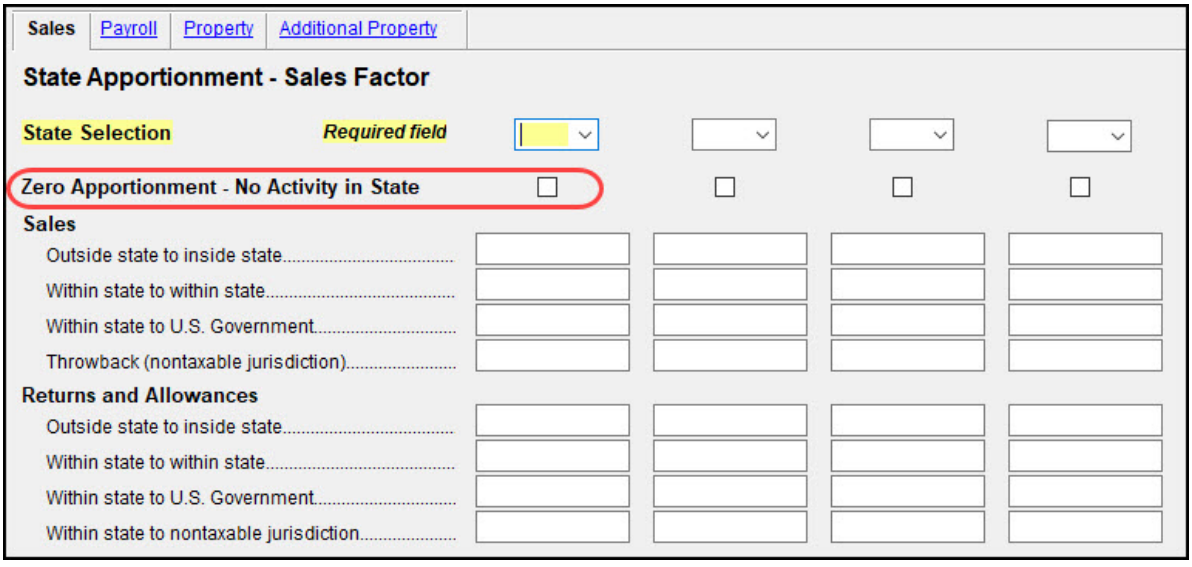
Data for other states must be entered manually in state data entry. To access state data entry, select the **States** tab from the **Data Entry Menu** and choose a state, or enter the two-letter state code in the selector field and press ENTER.

Multi-State Apportionment

Screen: **APPT**

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

Figure 7: Screen **APPT** for multi-state apportionment



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

Individual state apportionment screens are used to override data entered on the federal **APPT** screen. State apportionment-related screens are updated from Drake Tax 2020 to Drake Tax 2021 upon updating the return to the current tax year.

Note

Mark the **Zero Apportionment** check box (red circle in Figure 7 on page 44) to add a state but not include any apportionment data. This will still 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. 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 salary, wage, commission, and labor amounts for each selected state.
Property	Enter beginning and ending amounts of common apportionment factors; 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** screens in Drake Tax 2021 will become the **Beginning** amount for property on the **APPT** screen when the client's return is updated next year in Drake Tax 2022.

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.

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

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

Schedule K (Form 1120-S)

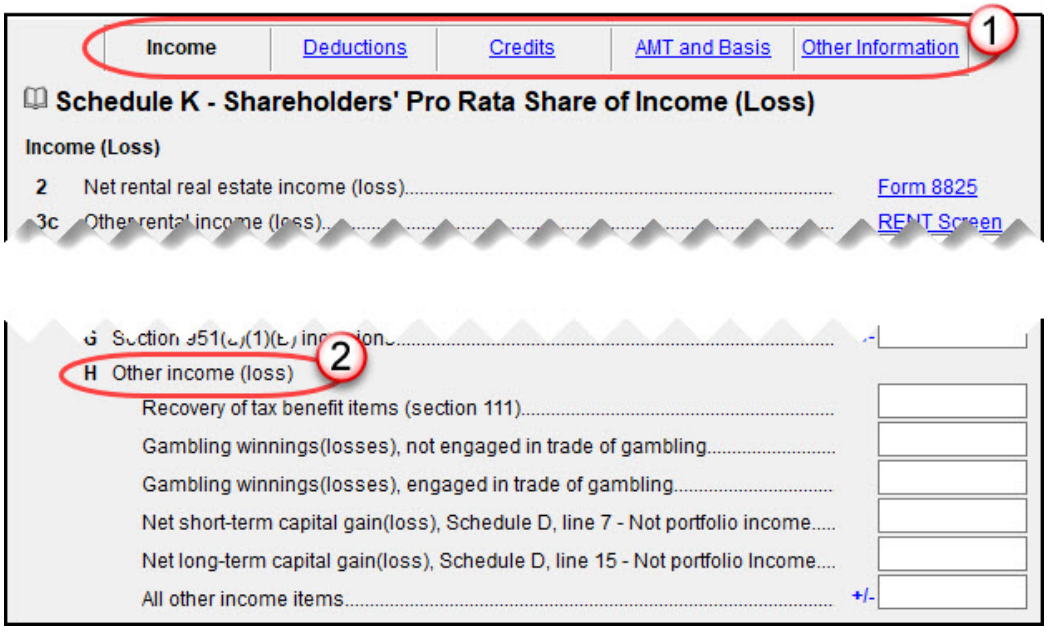
Screen: **K**

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

Navigation

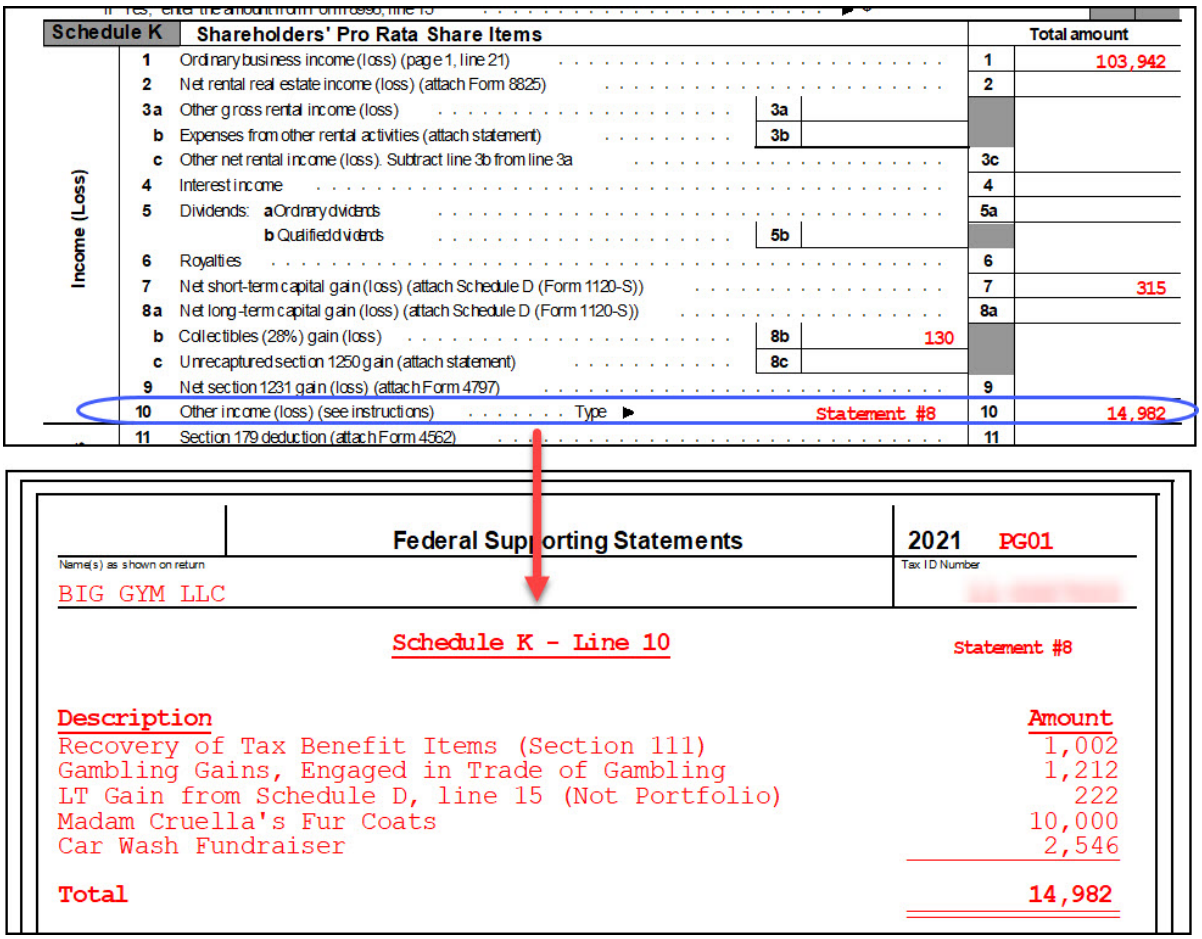
Screen **K** has separate tabs for data entry of **Income**, **Deductions**, **Credits**, **AMT and Basis**, and **Other Information** (item #1 in Figure 8). Click the tabs at the top of the **K** screen or press PAGE UP and PAGE DOWN to navigate among the **K** screens.

Figure 8: Screen **K**



Each tab includes "Other" items, such as "Other" income (item #2 in Figure 8 on page 46), "Other" deductions, and "Other" credits, allowing a detailed supplemental K statement (Figure 9).

Figure 9: Detailed supporting statements created using the "other" fields



Schedule K	Shareholders' Pro Rata Share Items			Total amount
Income (Loss)	1 Ordinary business income (loss) (page 1, line 21)		1	103,942
	2 Net rental real estate income (loss) (attach Form 8825)		2	
	3a Other gross rental income (loss)	3a		
	b Expenses from other rental activities (attach statement)	3b		
	c Other net rental income (loss). Subtract line 3b from line 3a		3c	
	4 Interest income		4	
	5 Dividends: a Ordinary dividends		5a	
	b Qualified dividends	5b		
	6 Royalties		6	
	7 Net short-term capital gain (loss) (attach Schedule D (Form 1120-S))		7	315
	8a Net long-term capital gain (loss) (attach Schedule D (Form 1120-S))		8a	
	b Collectibles (28%) gain (loss)	8b 130		
	c Unrecaptured section 1250 gain (attach statement)	8c		
	9 Net section 1231 gain (loss) (attach Form 4797)		9	
	10 Other income (loss) (see instructions) Type ▶ Statement #8		10	14,982
	11 Section 179 deduction (attach Form 4562)		11	

Federal Supporting Statements — 2021 PG01

Name(s) as shown on return: BIG GYM LLC — Tax ID Number: [redacted]

Schedule K - Line 10 — Statement #8

Description	Amount
Recovery of Tax Benefit Items (Section 111)	1,002
Gambling Gains, Engaged in Trade of Gambling	1,212
LT Gain from Schedule D, line 15 (Not Portfolio)	222
Madam Cruella's Fur Coats	10,000
Car Wash Fundraiser	2,546
Total	**14,982**

NOTE

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

Passing Through QBI Information

Screen: **199A**

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

The S corporation itself is *not* eligible for the QBI deduction; instead, the corporation must pass the necessary information through to its *shareholders* with a statement attached to Schedules K-1, separately identifying each trade or business, and—using the same box numbers as shown on Schedule K-1—the amount of the following separately stated 199A items:

- Ordinary Business Income (Loss)
- Rental Income (Loss)
- Royalty Income (Loss)
- Section 1231 Gain (Loss)
- Other Income (Loss)
- Section 179 Deduction
- Other Deductions
- W-2 Wages
- Unadjusted Basis of Assets
- Qualified REIT Dividends
- Qualified PTP Income
- QBI allocable to qualified payments received from the specified cooperative
- Pass-through Domestic Production Activities Deduction (DPAD) under Section 1099A(g) from a specified cooperative

Screen **199A**, **Qualified Business Income**, is available for reporting this information. There are also the **Qualified Business Income (QBI)** sections on screens **F**, **RENT**, and **8825**. Drake Tax automatically produces the required statements with each shareholder's Schedule K-1.

A check box on screen **199A** allows you to override the amounts calculated and flowing to the QBI worksheet.

Notes

- The program assumes that the corporation operates as a single business entity and that all of the income on Form 1120-S, line 21, "Ordinary business income (loss)," is Qualified Business Income for purposes of computing QBI deductions. If the amount on line 21 is from more than one trade or business, 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.

- Should unadjusted basis in assets (UBIA) have to be applied to the QBI calculation, Drake Tax takes the data entered on screen **4562** and uses it accordingly. If you would like to calculate the taxpayer's UBIA outside of Drake Tax, report already-calculated UBIA on screen **199A** in the **Section 199A Unadjusted basis of assets allocated to this activity** field.

QBI Statements and Worksheets

Drake Tax includes worksheets with 1120-S returns that report Qualified Business Income.

When taxpayers receive a Schedule K-1 from S corporations, they also receive the following:

- "Statement A – QBI Pass-Through Entity Reporting"
- "Statement B, QBI Pass-Though Entity Aggregation Elections" (for business entities that have been aggregated)
- "Statement C – Pass-Through Entity Reporting—Patrons of Specified Agricultural and Horticultural Cooperatives" (if applicable)

For S corporations receiving a Schedule K-1 from a pass-through entity, record information from these statements on screen **K199**.

Statement A

The "Statement A – QBI Pass-Through Entity Reporting" worksheet ("K-1 Wks QBI"), that includes Section 199A items, is attached to and filed with Schedules K-1.

The "Qualified Business Income Information" worksheet ("Wks QBI" in View/Print mode)— a summary of Statement A—is also generated with the return. This worksheet is *not* filed and is intended for the entity's records.

Statement B

"Statement B – QBI Pass-through Entity Aggregation Election(s)" ("K-1 Statement B") is attached to and filed with Schedule K-1, and a "Qualified Business Income Aggregation" worksheet—a summary of Statement B ("Statement B" in View/Print mode)—is generated for the entity's records.

Statement C

"Statement C – QBI Pass-through Entity Reporting" ("K-1 Wks QBIC") is attached to and filed with Schedule K-1 for patrons of specified agricultural and horticultural cooperatives. Certain patrons who conduct business through cooperatives may be able to include patronage dividends and similar amounts they receive from those cooperatives to calculate their own QBI deduction. Specified agricultural or horticultural cooperatives are allowed a section 199A(g) deduction for income attributable to domestic production activities, which is similar to the domestic production activities deduction under former section 199 before its repeal by the TCJA.

A summary of Statement C—Qualified Business Income Information ("Wks QBIC")—is generated for the entity's records. This summary is not e-filed.

Denoting Service Trades or Businesses

Screens:
199A, K199

Specified service trades or businesses are generally excluded from the definition of a qualified trade or business. If the S corporation is a Specified Service Trade or Business (SSTB), the shareholder 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

QBI information is entered at the following locations:

- QBI relating to the main page of Form 1120-S or shareholders is entered on screen **199A**.
- QBI relating to Schedules K-1 received from partnerships (Form 1065) and fiduciaries (Form 1041) is entered on screen **K199**. From the **For** drop list of screen **K199**, choose **K1P** or **K1F**, as appropriate.

Both screens are accessible from the **Other Forms** tab of the **Data Entry Menu**.

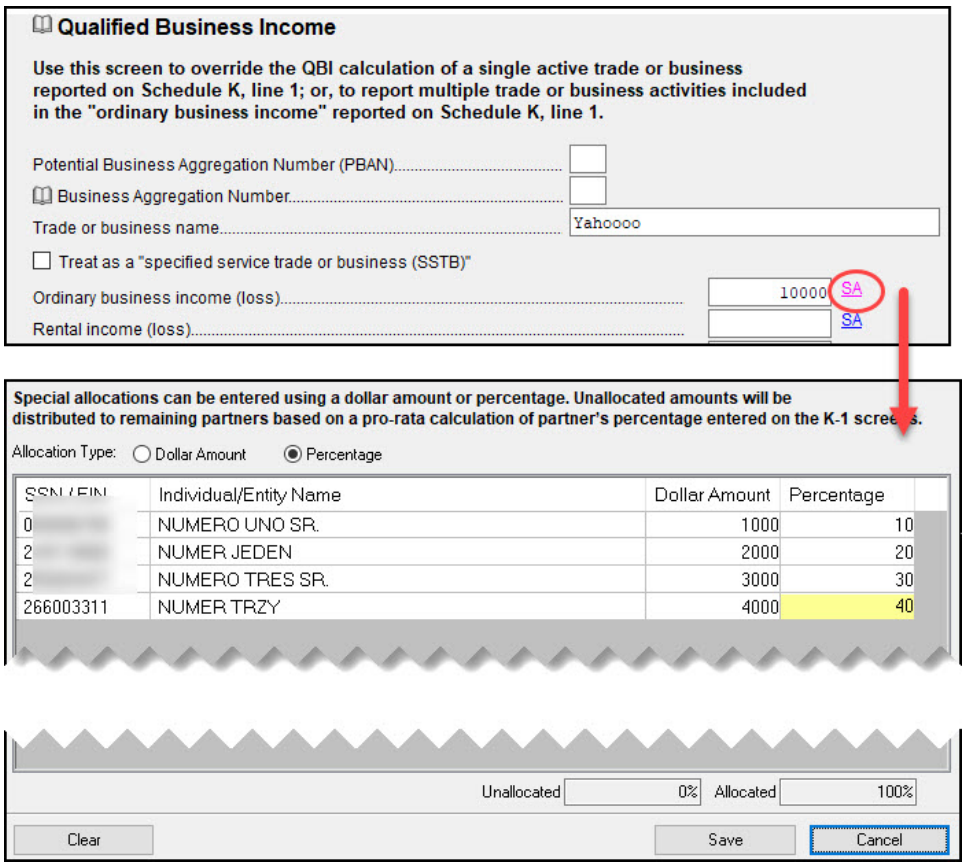


NOTE

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

Be sure to mark the **Treat as a "specified service business"** box where appropriate. Type the section 199A information in the necessary fields. To allocate the amounts and activities to the various shareholders, click the **SA** links to open **Special Allocation** screens. Used **SA** screen links, where specific types of income have been allocated, are signified with different colored links (red circle in Figure 10 on page 52).

Figure 10: Allocating QBI income using **SA** screens



If reporting income data from more than one trade or business, press PAGE DOWN for a new **199A** screen.

NOTE

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

For screens **8825**, **RENT**, and **F**, select **Yes** or **No** from the **This activity is a trade or business** drop list. (If this return was updated from Drake Tax 2020, the field should be completed for you.) This is a required field.

IMPORTANT

If Form 1120-S is filed with no section 199A information in box 17 (code V) of Schedule K-1, the IRS will assume that no QBI data was generated from

this corporation and will *not* allow the QBI deduction on the owner's or shareholder's 1040 return.

Safe Harbor for Rental Properties

Screen: **8825**

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

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

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

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

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

For complete details, see IRS Notice 2019-07.

Aggregation, BANs, and PBANs

An S corporation engaged in more than one trade or business may choose to "aggregate" (combine) multiple trades or businesses into a single trade or business. In Drake Tax, use the Business Aggregation Number (BAN) fields to put these businesses together into one group of "aggregation."

IMPORTANT

Once an S corporation aggregates a group of trades or businesses, the shareholders *must* abide by that aggregation. If the shareholders wish to choose their own aggregations, use the "Potential" Business Aggregation

Number (PBAN) instead of the BAN. See "Potential BANs" on page 54 for more information.

A BAN works just like other "grouping" numbers in Drake Tax, such as multi-form codes and passive activity numbers. Enter the same number in the **Business Aggregation Number (BAN)** fields of the different businesses in the 1120-S return—such as on screens **F**, **8825**, **RENT**, **K199**, and **199A**—and all trades or businesses with the same BAN are aggregated. To create more than one aggregation group, use a different BAN for each separate group.



NOTE

See "Associating One Screen with Another" in Chapter 3 of the *2021 Drake Tax User's Manual* for more on using multi-form codes.

Using **BAN** Fields and Screen **BAN**

Screen: **BAN**

If this 1120-S corporation is engaged in more than one trade or business, and you determine that some of the separate businesses that are reported on this tax return qualify for aggregation, and the corporation wants to aggregate them, then enter the same number in the **Business Aggregation Number (BAN)** fields of the different businesses in the 1120-S return —such as on screens **F**, **8825**, **RENT**, **K199**, and **199A**—then open the **BAN** screen (located on the **Other Forms** tab of the **Data Entry Menu**).

Enter the same BAN in the **Business Aggregation Number (BAN)** field on the **BAN** screen that you used for the other business that you are aggregating (on screens **F**, **8825**, **RENT**, **K199**, or **199A**). Then, type in a name for the aggregated group. Finally, in text box **1** on the **BAN** screen, describe the relationship between the businesses and the factors met that allow the aggregation.

If there has been any change on the aggregation since the 2020 return, then, in text box **2** of the **BAN** screen, describe the changes of fact or circumstance that have occurred since the prior year relating to an existing aggregation of the trade or business. (See the field help for both text boxes **1** and **2** for more information.)

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

Potential BANs

Screen: **PBAN**

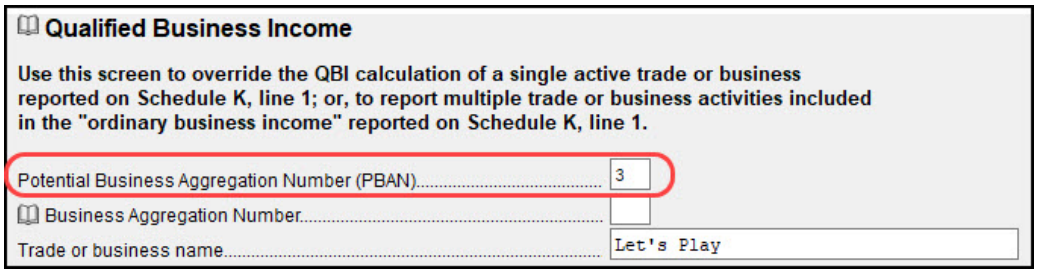
On their Individual (1040) returns, taxpayers have the choice to aggregate certain businesses they are part of into one entity for purposes of computing the Qualified Business Income

Deduction (QBID). For that to happen, the S corporation must tell the shareholders which trades or businesses *might* qualify to be aggregated. This is done by using the **Potential Business Aggregation Number (PBAN)** fields on screens **F**, **8825**, **RENT**, **199A**, **K199**, and the **PBAN** screen, all available from the **Other Forms** tab of the **Data Entry Menu**.

The PBAN works just like the BAN and other "grouping" numbers in Drake Tax, such as multi-form codes (MFCs) and passive activity numbers. All forms with the same PBAN can potentially be aggregated. (Shareholders can choose whether or not to aggregate and which trades or businesses can be in the aggregation.)

Enter this same number in the **PBAN** fields of every appropriate screen for each business on this return that can potentially be aggregated—**F**, **8825**, **RENT**, **199A**, **K199**, and **PBAN**. (See "Reporting Section 199A Items" on page 51.) In the Figure 11 example, this trade can potentially be aggregated with others also using the PBAN "3."

Figure 11: Using the **PBAN** field on screen **199A**



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

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

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

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

- They are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group.

Not Qualifying for QBI

Screen: **N199**

If any portion of the income or loss calculated on line 21 of Form 1120-S is not trade or business income for QBI deduction purposes, open screen **N199** (available from the **Other Forms** tab of the **Data Entry Menu**), and allocate the portion of the item that should *not* be included on Schedule K-1, box 17, code V.



NOTE

The BAN Statement B 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" generated in the appropriate "Aggregation" cell at the top-right of Statement A.

Multiple Aggregations

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

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

Oil and Gas Depletion Worksheet

Screen: **DEPL**

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.)

Entries on the **DEPL** screen flow to the shareholders' Schedule K-1, box 17, as code "R." The deductions from all of the worksheets are totaled and carried to the indicated form or

schedule. When you view the return, the "Wks DEPL" worksheets are listed in the forms tree on the left side of the **View/Print** window.

Schedule K - Business Activities Statement

Screen: **BAS**

A Business Activities Statement (screen **BAS**) breaks down an S corporation's Schedule K items by business activity (listed in View/Print mode as "Wks BAS").

A K-1 statement ("K-1 Wks BAS") is also provided for the shareholders.

At-Risk Rules

At the bottom of the **BAS** screen are check boxes for lines 18, "More than one activity for at-risk purposes," and 19, "More than one activity for passive activity purposes," of Schedule K-1.

Mark the box for line 18 if the business activity is covered by the At-Risk rules. Selecting this box on screen **BAS** marks box 18 of Schedule K-1. Information provided in the Business Activity Statement ("K-1 Wks BAS") should be used by the shareholder to figure at-risk limitations for his or her individual (1040) return.

Passive Rules

Mark the box on line 19 of screen **BAS** if the business activity is covered by the Passive Activity rules. Selecting this box marks box 19 of Schedule K-1. Information provided in the Business Activity Statement ("K-1 Wks BAS") should be used by the shareholder to figure passive limitations for his or her individual (1040) return.

Sch. K-1 for 1120-S (Shareholder Info.)

Screen: **K1E**

Use screen **K1E** to enter personal information and ownership data for the shareholders and officers. This information flows to Schedule K-1, Shareholder's Share of Income, Deductions, Credits, etc.

Control Number

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



NOTE

Control numbers are direct entry only. Drake Tax does not automatically "increment" the control number. You must enter a unique number on each shareholder or officer's **K1E** screen.

Rounding Shareholder

Mark the relevant check box on screen **K1E** to select who should be the "rounding" shareholder. The rounding shareholder is the one who receives any balancing amount on Schedule K-1 when the return is calculated.

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

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

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

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

Officer Only

If you are using a **K1E** screen only to report information on an officer who is not a shareholder, select the **Reporting 1125-E information only** check box. Complete all applicable fields. (Several sections of screen K1E are deactivated when you select the **Reporting 1125-E information only** check box.)

Officer information entered on the **K1E** screens flows to Form 1125-E, Officer Information, when Form 1125-E is required.



NOTE

Form 1125-E is generated only when the corporation's annual receipts are at least $500,000, or the **Force-print 1125E Officer Information** option is selected

on screen **PRNT** (available from the **Miscellaneous** tab of the **Data Entry Menu**).

Enter each officer's compensation in the **Form 1125-E Officer Information** section of screen **K1E**. The total of officer compensation (shareholders and non-shareholders) can be entered in the **Officer Compensation** override fields of the **DED** screen (generally used when Form 1125-E is not required).

For more on entering officer compensation, see "Compensation of Officers (Form 1125-E)" on page 26.

Name Field

The **Shareholder, Officer Information** section of the **K1E** screen has a **Name** field for corporation officers and for shareholders who are individuals. The **Entity name** field is for shareholders that are *not* individuals (estates, trusts, tax-exempt organizations, etc.). Putting a name in the **Entity name** field does *not* automatically change the type of shareholder; to do so, make a selection from the **Type** drop list.

Signing Officer

Mark the box on screen **K1E** that identifies the officer who signs the federal or state returns.

If you mark the **Signs return** check box on screen **K1E**, that officer's information flows to the **PIN** screen automatically, eliminating the need to re-enter that information. You still must enter the PINs for the ERO and the officer on the **PIN** screen, as well as the signature date for e-file purposes.

Stock Ownership

Use the **Stock Ownership Information** section (the **Shares at start of year** field) to calculate the weighted average ownership percentage for distribution of income, tax deductions, credits, preference items, etc., from Schedule K.

Ownership and Participation

The **Ownership and Participation** fields on screen **K1E** are required if filing Form 1125-E.

These fields are used as follows:

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

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

Loans from Shareholders

Screen: **LOAN**

Enter information on loans the shareholders make to the corporation on the **Loans from Shareholder** screen (**LOAN**), available from a link on screen **K1E** and from the **SBS K, K1, K2, K3** tab of the **Data Entry Menu**. Data entered on screen **LOAN** is presented on a "Loans from Shareholder Statement" ("K-1 Wks LFS") attached to the shareholder's Schedule K-1.

- The balances of loans from shareholders to an S corporation are reported on the shareholder's Schedule K-1, item "I."
- A shareholder examines the loans made to the S corporation to determine the shareholder's debt basis in the S corporation.
- A preparer enters information for item "I" of Schedule K-1 for each applicable shareholder and additional information useful in the calculation of debt bases of the shareholder at the shareholder level on the **LOAN** screen.

The information entered on screen **LOAN** is used in calculating Schedule L, line 19 balances ("Loans from shareholders") and Schedule K, line 16e amounts ("Repayment of loans from shareholders").

A copy of the "Loans from Shareholder Statement" ("Wks LFS") is generated for the entity's records.

Responsible Party

Screens: **K1E, B1**

Use the **Schedule B-1 information** section of the **K1E** screen if the shareholder is considered a responsible party member. Line 3 on screen **B** must be marked **Yes** in order for Schedule B-1 (Form 1120-S), Information on Certain Shareholders of an S Corporation, to be generated.

Use screen **B1** to enter responsible party members for those members that do not have a designated screen **K1E**.

Ownership Changes

Screen: **OWN**

Ownership changes are entered on the **OWN** screen, which is accessible through the **OWN Screen** link in the **Stock Ownership Information** section of the **K1E** screen or from the **SBS K, K1, K2, K3** tab of the **Data Entry Menu**. To use the **OWN** screen:

- Enter the date of ownership change at the top of the screen.
- Select the applicable shareholder from the **Shareholder's ID Number and Name** drop list in the **Change in Shares** section. (The drop list consists of the names and ID numbers entered on the **K1E** screens and is updated automatically when a new screen **K1E** is created.)
- Enter the change in ownership of shares as a positive amount for an increase and a negative amount for a decrease.
- To enter additional ownership changes, press PAGE DOWN.



NOTE

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

Printed Data

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

A Change in Ownership worksheet ("K-1 Wks OWN") is generated for each shareholder who has changes in ownership shares.

Business Identity Theft

Screen: **1403**

Complete and submit Form 14039-B if the owners, officers, or shareholders suspect the corporation has been a victim of identity theft.

Note

If your client has never applied for an Employer Identification Number (EIN) but has received notices for a business in his or her name, do not complete Form 14030-B; instead, file Form 14039, Identity Theft Affidavit, under your client's Social Security Number (SSN), Individual Taxpayer Identification Number (ITIN) or Adoption Taxpayer Identification Number (ATIN).

Complete Form 14039-B from screen **1403** (available from the **Miscellaneous** tab of the **Data Entry Menu**).

Screen K1 Overrides

Click the **Overrides** tab at the top of the **K1E** screen to access the K-1 override fields.

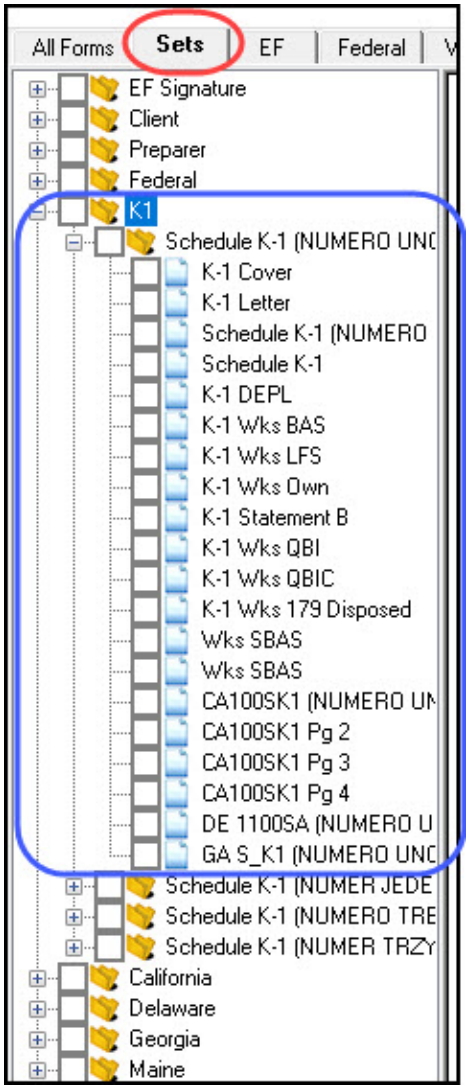
Sorting and Viewing Schedules K-1

View a return with multiple Schedules K-1 and you will see, in the forms tree on the left side of the **View/Print** window (in Enhanced View), that each shareholder has a "K-1" folder containing federal and state Schedules K-1 and any other forms, worksheets, and letters generated for that shareholder. Scroll down to a state to see similar K-1 folders for each shareholder.

For those who print their K-1 schedules, forms, worksheets, and letters from the **Sets** tab in View/Print mode (red circle in Figure 12 on page 63), notice that within the **K1** sets folder, each shareholder has a separate folder containing all generated federal and state K-1 schedules, forms, worksheets and letters (blue square in Figure 12), making it easier to print everything needed for the shareholders.

Click the Plus Sign [+] to expand the folder to see all documents relating to that shareholder. Click the Minus Sign [-] to collapse the folder.

Figure 12: Viewing/printing all K-1 documents for a shareholder



Set Viewing Order

Screen: **PRNT**

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

Choose to sort by first or last name and the shareholders will be listed alphabetically by the name you choose. (Shareholders that are estates, trusts, tax-exempt organizations, or disregarded entities will be listed by the first letter of the first word or name in the **Entity name** line of screen **K1E**.)

IRS K-1 Codes in Drake Tax

Instead of producing the entire K-1 code sheet found within the Schedule K-1 (Form 1120-S) Instructions, Drake Tax generates only those codes that appear throughout the Schedules K-1 in the 1120-S return. 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.

By default, this code sheet is not generated. To generate a sheet of all K-1 codes present in the return for *all* returns, 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. If this setup option is not selected and you would like to print Schedule K-1 codes on a per-return basis, select the **Print Schedule K-1 Codes** check box on the **PRNT** screen.

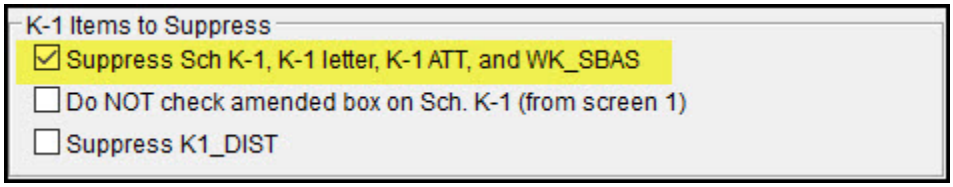
The generated Schedules K-1 may include letter codes and asterisks:

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

Multiple Shareholders

For returns with a large number of shareholders, you have the option to deactivate calculation and printing of the K-1s while working on Form 1120-S. This option, which eases the process of reconciling the 1120-S, is available from the **PRNT** screen. Mark the **Suppress Sch K-1, K-1 letter, K-1 ATT, and WK_SBAS** box under **K-1 Items to Suppress** (Figure 13).

Figure 13: Suppressing Schedules K-1 and related documents from the **PRNT** screen



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

Overriding Data for a Single Schedule K-1

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

IMPORTANT

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

Foreign Addresses

Screen: **K1E**

If the shareholder has a foreign address, enter **Province/state**, **country**, and **postal code** information on the **Foreign** address line of the **Shareholder, Officer Information** section (along with the street address and city in the **Address** and **City** fields) of screen **K1E**. Do not enter anything in the **U.S. State** or **ZIP** fields. Conversely, for a U.S. address, do not enter anything into the foreign address fields.

NOTE

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

K-1/K-3 Export

Take the following steps to export K-1/K-3 information from an 1120-S return into the **K1S** screen of a 1040 return:

1. Ensure that K-1 data is entered in the 1120-S return and that the 1040 return has been created in Drake Tax. (The **K1S** screen in the 1040 does not have to be created beforehand.)
2. In the 1120-S return, access View/Print mode. (Click the **View/Print** icon from the toolbar, or press CTRL+V.)

3. Click **K1 Export** in the View/Print toolbar. If any K-1s are not eligible to be exported, that list appears. Click **Next** to continue; otherwise, the **Export K1s** window displays a list of K-1s eligible for export.

   The K-1/K-3 Export feature can also export 1120-S K-1 data to a 1040 or 1041 return. K-1 data is exported to the K-1 "source" screen (**K1S**) of the respective package.

4. Remove the check mark from the box to the left of any TINs you do not wish to export.

5. Click **Export**. When the export is complete, click **OK**.



NOTE

An S corporation cannot be a shareholder of an S corporation.

The K-1 data will be displayed in the 1040 return on screen **K1S**. If the S corporation had foreign transactions, the following K-3 data is imported into a new **1116** screen in the 1040 return:

- Gross income (Part II, Section 1)
- Deductions (Part II, Section 2)
- Foreign taxes (Part III, Section 4)

The tax return preparer should review the shareholder's Schedule K-3 that is generated with the 1040 return and determine if other reported amounts are relevant to the individual's return. The preparer must enter any other data deemed necessary on the applicable 1040 screen of Drake Tax.

K-3 data cannot be exported at this time into S corporation or partnership returns and must be manually entered on the appropriate screens of the receiving shareholder.



NOTE

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

The **Additional Entries** tab on screen **K1S** 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 **K1S** screen in the 1040 and 1041 packages.

Supplemental Information

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

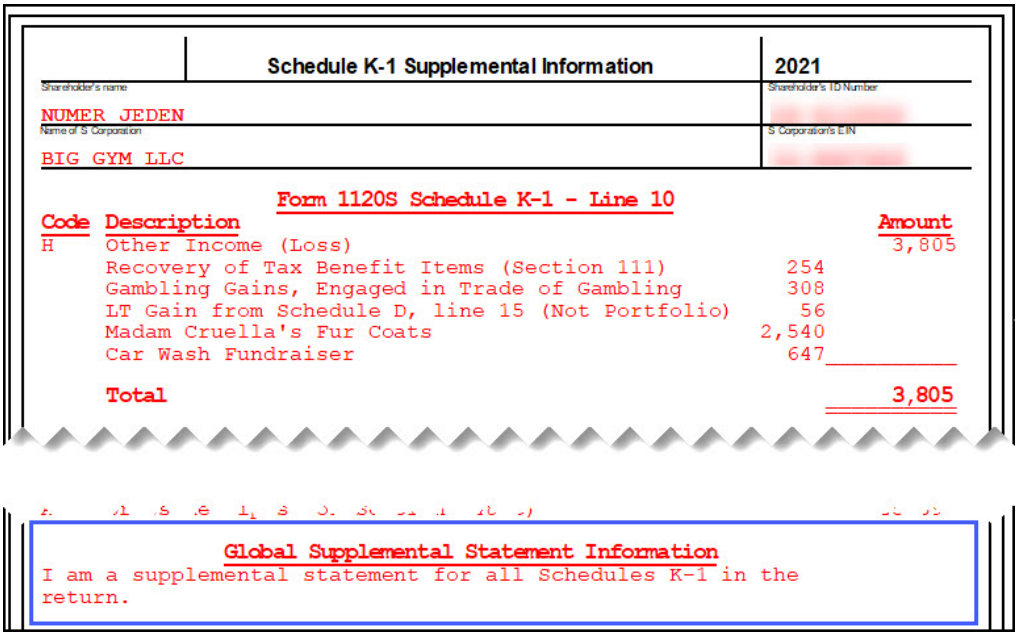
- Supplemental data for *all* K-1s in a return
- Supplemental data for a *single* K-1 in a return

Supplemental Info. for All Schedules K-1

Screen: **K1G**

To add supplemental information "globally" (to all K-1s in a return), from the **Data Entry Menu**, open screen **K1G** (available from the **SBS K, K1, K2, K3** tab of the **Data Entry Menu**) and enter the information in the **Supplemental Information** text box. This information appears on all printed shareholder K-1s as part of the **Schedule K-1 Supplemental Information** statement (page 2 of Schedule K-1) (Figure 14).

Figure 14: Information entered on screen **K1G** included on the Schedule K-1 Supplemental Information statement



Schedule K-1 Supplemental Information 2021

Shareholder's name: NUMER JEDEN
Shareholder's ID Number: [redacted]
Name of S Corporation: BIG GYM LLC
S Corporation's EIN: [redacted]

Form 1120S Schedule K-1 - Line 10

Code	Description		Amount
H	Other Income (Loss)		3,805
	Recovery of Tax Benefit Items (Section 111)	254	
	Gambling Gains, Engaged in Trade of Gambling	308	
	LT Gain from Schedule D, line 15 (Not Portfolio)	56	
	Madam Cruella's Fur Coats	2,540	
	Car Wash Fundraiser	647	
	Total		3,805

Global Supplemental Statement Information

I am a supplemental statement for all Schedules K-1 in the return.

Supplemental Info. for a Single Schedule K-1

Screen: **K1E**

To add supplemental information to an *individual* K-1, open a shareholder's **K1E** screen and click the **Supplemental Info** tab. In the text box, enter information pertinent to this shareholder. When the return is printed, this information appears on only this shareholder's Schedule K-1 as part of the **Schedule K-1 Supplemental Information** statement (page 2 of Schedule K-1) (Figure 15).

Figure 15: Information entered on screen **K1E** included on the Schedule K-1 Supplemental Information statement

Schedule K-1 Supplemental Information — **2021**

Shareholder's name: NUMERO UNO SR.
Shareholder's ID Number: [redacted]
Name of S Corporation: BIG GYM LLC
S Corporation's EIN: [redacted]

Form 1120S Schedule K-1 - Line 10

Code	Description		Amount
H	Other Income (Loss)		3,683
	Recovery of Tax Benefit Items (Section 111)	246	
	Gambling Gains, Engaged in Trade of Gambling	298	
	LT Gain from Schedule D, line 15 (Not Portfolio)	54	
	Madam Cruella's Fur Coats	2,460	
	Car Wash Fundraiser	625	
	Total		3,683

Supplemental Statement Information

Information entered on the Supplemental Info tab of screen K1E appears only on the respective shareholder's Schedule K-1.

Domestic Production Activities Deduction

Screen: **8903**

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

K-1 Cover Letters

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

Producing Letters for All Returns

K-1 letters are not produced by default. To have the K-1 cover letters produced automatically with all applicable returns, from the **Home** window menu bar of Drake Tax, go to **Setup > Options**. Under the **Client Communications** tab, on the bottom-left of the window, mark the box labeled **Include K-1 letter with returns**.

From the **K-1 Letterhead** drop list, choose to print the corporation's information in the letterhead, print your firm's logo and information in the letterhead, or to have neither the corporation's nor firm's information printed in the letterhead.



Note

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

By default, the K-1 letters are signed by the officer or shareholder designated as the person who "Signs return" on screen **K1E**.

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



Note

Entering a title and name in the override fields on screen **PIN** overrides the person signing the return *and* K-1 letter. Should the signing shareholder or officer differ from the person signing the K-1 letter, enter the K-1 signer on screen **COMM**.

Producing Letters for a Single Return

Screens: **COMM/ K1L**

If you did not opt to produce K-1 cover letters with all returns, you can take the following steps to generate letters for a single return:

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

   Select **Do not print entity or firm info** from the **Information on the K-1 coversheet...** drop list at the bottom of the **COMM** screen and no letterhead information will appear at the top of the K-1 letters.

Once signing information has been entered on screen **COMM**, a K-1 cover letter will be generated for each shareholder receiving a K-1.

Editing the K-1 Letter

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



Tip

Review the following sections of the *2021 Drake Tax User's Manual* before making changes to letter templates:

— "Letters in Drake Tax" (Chapter 2)

— "Letter Keywords" (Appendix A)

To edit the text of the K-1 letter:

1. From the **Home** window menu bar in Drake Tax, select **Setup > Communications Editor**. The **Client Communications Editor** is displayed.
2. From the icons on the toolbar, select **Open > S Corporation > Sub-S K1 Cover Letter** to view the template of the S corporation K-1 letter. (Click **Full Edit** from the Client Communications toolbar to see the letter with its conditional paragraphs, keywords, and text displayed.)
3. Make any desired changes to the template.
4. Click **Save**.

Note

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

Shareholder's Adjusted Basis Worksheet

Important

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

Screen: **K1E**

Use the Shareholder's Adjusted Basis Worksheet (**Basis Wks** tab of the **K1E** screen) to calculate a shareholder's new basis after increases and decreases are made during the current year. The basis of S corporation stock is adjusted on an ongoing basis (unlike for a "C" corporation, where stock basis remains constant unless additional stock purchases are made or stock is sold). A shareholder's beginning basis in S corporation stock is the original capital contribution.

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

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

Annual Update of Shareholder Information

When Drake Tax is updated next year (for the 2022 filing season), the end-of-year basis and shareholder loan amounts are automatically updated to the beginning-of-year amounts in Drake Tax 2022. Any loss/deduction carryover is updated to the beginning of the year and its character (ordinary loss, section 179 expense, charitable contributions, etc.,) maintained. The program also tracks the amount of debt applied to losses and the total amount of loss carryforwards.

Note

If a **K1E** screen is marked as final, none of the related screens for that shareholder is updated for the next year.

Schedules K-2/K-3

New for 2021: Schedule K-2, Shareholder's Pro Rata Share Items — International, has been added for tax season 2021 as an extension of Schedule K-1 and is used to report foreign transactions. Schedule K-3, Shareholder's Share of Income, Deductions, Credits, etc. — International, is generated for each shareholder, reporting his or her share of the S corporation's foreign transactions.

Due to the extensiveness of Schedules K-2 and K-3, the IRS has created additional exceptions for tax year 2021 regarding entities that may be exempt from filing these Schedules. If the entity meets the transition relief efforts provided for certain S corporations and partnerships preparing Schedules K-2 and K-3, select the corresponding **Schedule K-2, Items of International Tax Relevance** check box on screen **1**. Marking this option prevents Schedules K-2 and K-3 from being generated. See the field help for a brief explanation regarding transition relief, and for further details, view the Schedules K-2 and K-3 Frequently Asked Questions page on *irs.gov*.

For more information on how to complete and the uses of each Schedule, turn back to "Schedule K-2" and "Schedule K-3" on page 13.

Schedule L - Balance Sheet Per Books

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

Notes

- To force the program to print Schedule L even if not required, mark the **Force-print Schedules L and M-1** box on screen **PRNT** or the **Force-print Schedules L, M-1 and M-2** box on screen **L**.

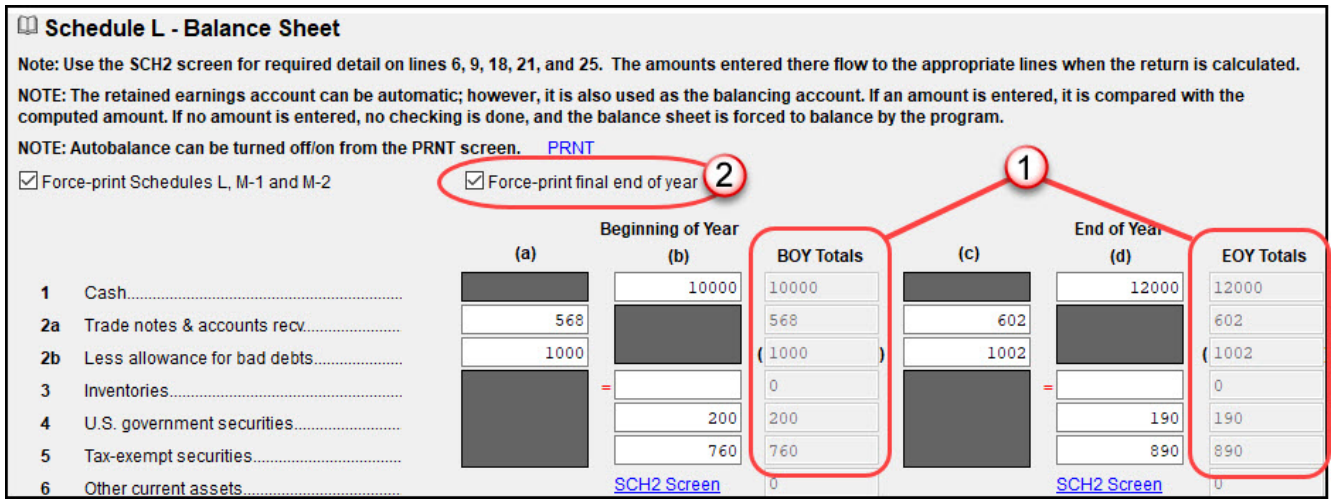
- With the Trial Balance Import feature, you might not need to use screen **L** at all. See "Importing Trial Balance Information" on page 98.

Schedules L and M-2

Screens: **L, M2**

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 16).

Figure 16: Beginning- and end-of-year totals are updated on screen **L** when you recalculate the return (item #1); force printing end-of-year totals (item #2)



Note that the totals from the balance sheet's subsidiary schedules (**SCH2** screen) also appear in the **BOY Totals** and **EOY Totals** columns of the **L** screen. (See "The SCH2 Screen" on page 74 for more on using this screen.)

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



TIP

To speed up calculation of returns that contain multiple states, open screen **1** and select **0** from the **Resident state** drop list. Before filing, be sure to return to screen **1**, make the appropriate selection from the **Resident state** drop list, and then recalculate the return.

Force-Printing Final End-of-Year Totals

Normally, if you mark **Final return** on screen **1**, the program "zeros out" the "End of tax year" columns of Schedule L. Mark the **Force-print final end of year** check box on screen **L** (item #2 in Figure 16) to force those totals to be displayed.

Flow of Information

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

The SCH2 Screen

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



Note

When a return is updated from one year's version of Drake Tax to the next—such as from 2020 to 2021—all line selections flow to the **SCH2** screen, with the prior year's year-end amounts flowing to the beginning-of-year column in current year's program.

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

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

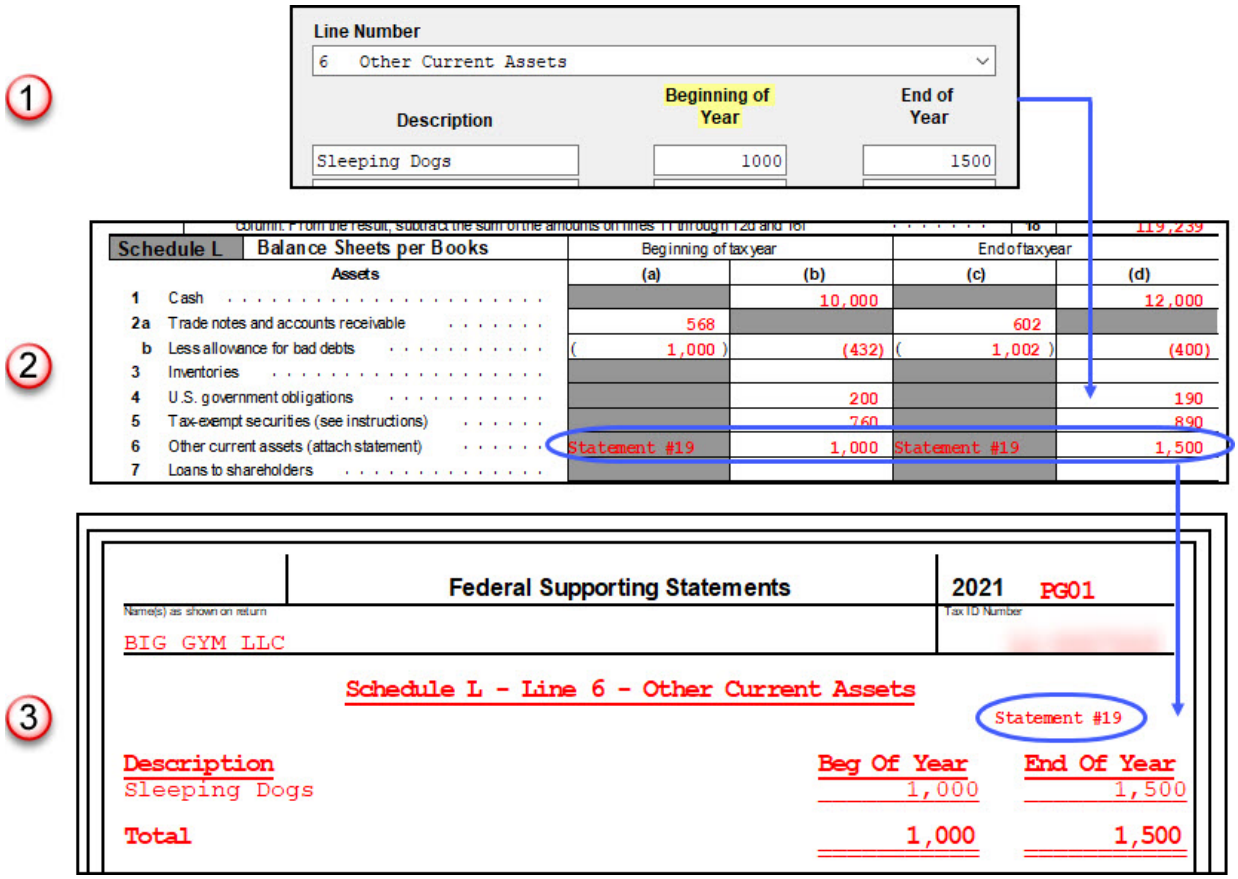
Statements

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

If a line is *required*, a statement (labeled "Statement [#]" or "STATMENT" in View/Print mode, depending on your setup options) is produced and e-filed with the return.

Figure 17 shows the data flow process for data entered on screen **SCH2** that requires a statement.

Figure 17: Producing required Schedule L statements via screen **SCH2**



1. Data is completed using screen **SCH2** (item #1).
2. When the return is calculated, the statement reference can be seen on the respective line of Schedule L (#2).
3. The required statement can be viewed in full as an attached supplemental statement (#3).

SCH2 and Trial Balance

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

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

For more information, see “SCH2 Detail” on page 107.

Autobalance

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

(Example: If Assets = $1,000 and Liabilities and Capital = $900, the program increases the unappropriated retained earnings by $100.)

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

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

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

Turning On Autobalance

Screen: **PRNT**

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



NOTE

If you are using trial balance import, autobalance must be turned off prior to import. See “Preparing to Use Trial Balance Import” on page 98.

Schedules M-1 & M-3

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

Screen: **M1**

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

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

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

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
Unfavorable	Items that increase taxable income	• Disallowed meals & entertainment

Depreciation and Amortization Adjustments

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

1. The amount reported on Schedule L "Beginning of Year" accumulated depreciation (line 10b, column a) is subtracted from the "End of Year" accumulated depreciation (line 10b, column c). This is the "book" depreciation amount.
2. This "book" depreciation amount is compared to the "tax" depreciation amount. (The "tax" depreciation amount is calculated from the Forms 4562, including any section 179 amounts.)
3. The difference between the "book" and "tax" depreciation amounts is carried to the appropriate form and line.

- If the "book" depreciation amount is greater than the "tax" depreciation amount, the difference flows to one of the following locations:
  - Schedule M-1, line 3a
  - Schedule M-3, Part III, line 24 (as a negative amount)
  - Form 8916-A, line 21 (as a negative amount for assets selected on the **4562** detail screen for COGS)
- If the "tax" depreciation amount is greater than the "book" depreciation amount, the difference flows to one of the following locations:
  - Schedule M-1, line 6a
  - Schedule M-3, Part III, line 24 (as a positive amount)
  - Form 8916-A, line 21 (as a positive amount for assets selected on the **4562** detail screen for COGS)

Schedule M-3

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

NOTE

If Schedule M-3 is produced (even voluntarily), no data will be generated for Schedule M-1.

Accessing the **M3** Screens

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

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

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



Note

Parts II and III of Schedule M-3 reconcile financial statement net income (loss) for the U.S. tax return (per Schedule M-3, Part I, line 11) to total income (loss) on Form 1120-S, page 4, Schedule K, line 18.

— Screen SCH3 —

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

For more information on using this type of screen, see “The SCH2 Screen” on page 74.



Note

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

Schedule M-2 (Analysis of Accounts)

For an S corporation return, Schedule M-2 is the analysis of the Accumulated Adjustment Account. Schedule M-2 information can be entered on the **M2** screen and elsewhere in the program, but most information flows to the M-2 automatically. See "Entering Distributions" on page 80.

Schedule M-2 represents a corporation "picture" of the income, losses, and distributions to shareholders and tracks tax-free distributions, as well as helps determine if excess distributions might be taxable to shareholders. If a shareholder receives more in distributions than he or she has in basis, the result might be taxable.



NOTE

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

Entering Distributions

Screen: **DIST**

IRC section 6037 states that an S corporation return must report the amount and date of distributions made to each shareholder. Use the **DIST** screen (available from the **General** tab) for reporting date and distribution amounts for Schedule K, line 16d, "Distributions." In addition to line 16d, the total from the **DIST** screen may flow to Schedule M-2, line 7 (subject to limitations) and to the Schedules K-1 based on the shareholder's ownership percentage. Schedule K-1 distribution information is displayed on the shareholder's "K-1 Dist" worksheet produced with the return.

Column A, Accumulated Adjustments

Screens: **K, M2**

The "Accumulated adjustments account" column of Schedule M-2 generally reflects the S corporation's accumulated undistributed net income after 1982. Non-dividend distributions flow to Schedule M-2 from Schedule K, line 16d. An entry in the "Non-dividend distributions" line of the **M2** screen adjusts the amount from the **K** screen that appears on Schedule M-2 (subject to limitations). See the field help for column "a" of line 7 on screen **M2** for more details.

Distributions reported on line 7 flow differently from the amount entered on the **DIST** screen. (See "Entering Distributions," above.) The distributions are limited following the ordering rules under Reg §1.1368.2. Be sure to review Form 1120-S instructions for more details and examples.

Following are rules as well as the process for calculating Schedule M-2, column (a):

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

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



IMPORTANT

A corporation can make distributions greater than the amount on line 6 of the M-2, but those distributions could be taxable for the shareholders. Enter distributions on the **DIST** screen; this way, the amounts flow automatically to Schedules M-2 and K-1 but are limited based on the rules described previously. (For more information on the **DIST** screen, see "Entering Distributions" on page 80.)

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

Col. B, Undistributed Taxable Income Prev. Taxed

The total of column (**b**) cannot be negative. This column is active in an 1120-S only if the entity was ever a "C" corporation (thus having earnings and profit (E&P)) or if it was a pre-

1983 S corporation. By design, Drake Tax does not allow negative numbers in column (**b**) of screen **M2**.

If a corporation becomes an S corporation and has net operating losses (NOLs), the NOL is not generated for the return because it cannot be carried to an 1120-S (the IRS does not want the NOL to be used by the shareholders to offset income); it either runs out within the years allowable for the NOL by statute or is used if the S corporation terminates its "S" status within those years.

Column C, Accumulated E&P

If the corporation was a C corporation in a prior year, or if it engaged in a tax-free reorganization with a C corporation, enter the amount of any accumulated earnings and profits (E&P) at the beginning of its 2021 tax year on screen **M2**. If the corporation made distributions from accumulated earnings and profits, enter the amount of such distributions on screen **K**, **Other Information** tab, line 17c. This amount flows to line 17c of Schedule K and line 7, column (c), of Schedule M-2.

Column D, Other Adjustments Account

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

Expenses Paid Using Forgiven PPP Loans



New for 2021: Expenses paid with proceeds from PPP loans that were forgiven in 2021 should be reported on line 5, "Other reductions," column (d), "Other adjustments account," of Schedule M-2.

If any amount in column (a), "Accumulated adjustments account," on lines 1, 2, or 4 includes expenses paid in either 2021 or a prior year using PPP loans forgiven in 2021, enter that amount in the **Expenses paid in current or prior year using PPP loan proceeds forgiven in 2021** field. This data flows to the following locations on Schedule M-2:

- Line 3, "Other additions," column (a), "Accumulated adjustments account" (see Statement 29 in View/Print mode)
- Line 5, "Other reductions," column (d), "Other adjustments account"

Rental Activities

Screen: **8825**

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

If there are multiple 8825 properties, press PAGE DOWN for a new **8825** screen. Use one screen per rental property. If a return has more than one **8825** screen, the program reports each property's information on a separate column of the "Properties" section of Form 8825 (up to eight properties can be included on a form). If more than eight applicable properties are entered, a second Form 8825 is created. Data from all **8825** screens is transmitted to the IRS when the return is e-filed.



NOTE

Special steps are required for using the trial balance worksheet for multiple rentals. See "Rental Expenses" on page 109.

Line 14, Depreciation

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



NOTE

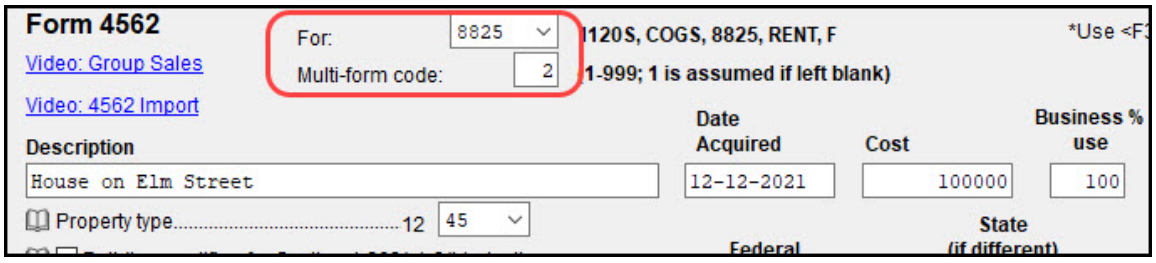
Form 4562 is required for assets placed in service during the year.

Information Flowing to Form 8825

To indicate that the information should flow to Form 8825, select **8825** from the **For** drop list on screen **4562** (Figure 18 on page 84). If there are multiple **8825** screens, use the **Multi-form code** box. Any depreciation information entered on the **4562** screen flows to the correct Form 8825, based on the form and multi-form code selections at the top of the **4562** detail screens.

For information on using the **Multi-form code** box, see the *2021 Drake Tax User's Manual*.

Figure 18: Linking a **4562** screen to an **8825** property



Important

When selecting a multi-form code to enter, note that the code should refer to an **8825** screen—not the 8825 form. For example, data from the *second* **8825** *screen* will be generated on the *first Form* 8825. To associate an asset with that information, you would enter "2" for the screen (not "1" for the form) in the **Multi-form code** box.

Note

Drake Tax produces a Form 4562 for each 8825 property linked using the **For** and **Multi-form code** fields on screen **4562.**

Information Flowing from Form 4797

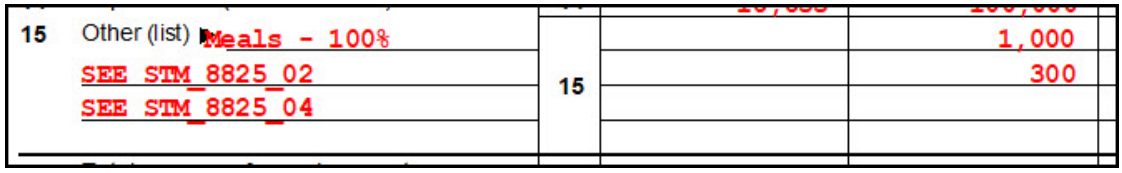
If the corporation sold rental property, and screen **4797** is completed, data flows from Part II, line 17, of Form 4797, to the first Form 8825, line 19, "Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities."

Line 15, Other Expenses

Enter meals and entertainment (subject to the relevant 50% or 100% limit) in the appropriate field on line **15** of the **8825** screen. To enter additional other expenses, begin typing into the **Additional other expenses** field to open a Detail Worksheet (CTRL+W). Enter descriptions and amounts on this worksheet.

If a Detail Worksheet is created for other expenses, a statement from each applicable 8825 property is printed with the return and is submitted to the IRS when the return is transmitted. Depending on your selections at **Setup > Options**, the literal for the attached statement is denoted as "STM_8825_[Instance of 8825 screen]" in View/Print mode. In the Figure 19 example, Detail Worksheets were created for the second and fourth 8825 screens.

Figure 19: Statements created using 8825 Detail Worksheets



If the number of screen **8825** Detail Worksheets exceeds the allotted space for line 15 of Form 8825, the literal "8825_ATT" is generated on line 15 and the "Form 8825 - Attachment" is produced in View/Print mode, listing all properties for which a screen **8825** was completed that include these additional other expenses, along with listing the statements generated for each.

Use line 2 of screen **K1P** to enter rental income the S corporation receives on a Schedule K-1. This amount flows to Form 8825, line 20a. No entry is required on the **8825** screen.

Qualified Business Income on Screen 8825

If this rental activity is a trade or a business, select **Yes** from the **This activity is a trade or business** drop list in the **Qualified Business Income (QBI)** section of the **8825** screen. For a possible aggregation of business for the shareholder's individual return, type an appropriate number in the **Potential Business Aggregation Number** field. For more information on using these fields, see "Passing Through QBI Information" on page 48 and "Aggregation, BANs, and PBANs" on page 53.

Note

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

Credits and Adjustments

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

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

See "Credit Adjustments" on page 26 for more.

Elections

Screen: **ELEC**

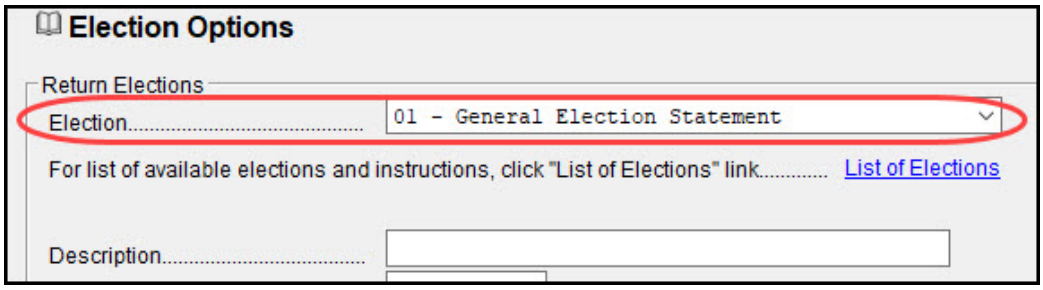
The ability to make certain tax elections is included in the business packages. Elections are selected from the **Election** drop list on the **ELEC** screen.

Making an Election in Drake Tax

To indicate that the S corporation is making an election:

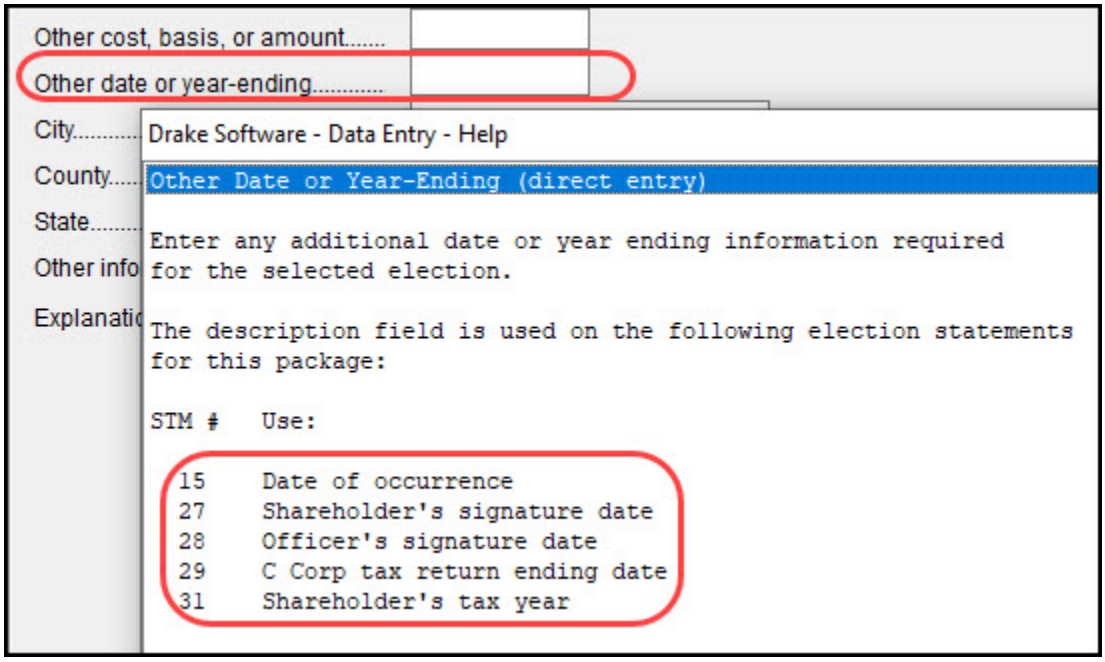
1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. Make a selection from the **Election** drop list (Figure 20).

Figure 20: Making an election from screen **ELEC**



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 needed. For example, the help text for the **Other date or year-ending** field shows that the field is required only for election options "15," "27–29," and "31," and it explains what, specifically, should be entered for each of these elections (Figure 21 on page 87).

Figure 21: Statements requiring data in the **Other date or year-ending** field of screen **ELEC**



Note

If the election option you selected is not listed in the help text for a field, that field should be left blank. For example, if you chose election "01 – General Election Statement," you would not need to enter anything into the **Other date or year-ending** field (help text in Figure 21 on page 87).

To open a new **ELEC** screen for an additional election, press Page Down.

Election Statements

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

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

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

Safe Harbor Elections

Screen: **4562**

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



NOTE

This Safe Harbor election covers buildings only.

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

Making Changes on the Fly

Screen: **PRNT**

Use the **PRNT** screen (accessible from the **General** or **Miscellaneous** tabs), as described in the following paragraphs, to override program defaults.

Suppressing/Forcing Items

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

1120-S Items

These items can be "forced" (forcing the program to generate the item) on a return:

- 1125-E, Officer Information
- Schedules L and M-1
- Form 4562, Depreciation and Amortization

- Next-year depreciation listing
- Inactive returns ("Inactive return" is printed on first page of the 1120-S)
- Preparer and officer signature on printed copy of return when using an alternate electronic signature

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

- Schedule M-2
- Wks M-2 (Retained Earnings Reconciliation Worksheet)
- Form, worksheet, and attachment references
- Proformas for the next tax year



NOTE

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

K-1 Items

The following K-1 items can be "forced" on a return:

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

The following K-1 items can be "suppressed":

- Related K-1 documents: Schedule K-1, K-1 cover letter, "K1 ATT" worksheet (for K-1 statement overflow), and shareholder's adjusted basis worksheet ("Wks SBAS")
- Marking the "Amended K-1" box printed on Schedules K-1
- "K-1 Dist" worksheet (Schedule K-1 Distribution Information)

Overriding Other Setup Options

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

The **PRNT** screen also includes options to reverse the autobalance setup option (see "Autobalance" on page 76), calculate the Form 2220 penalty, and prepare an extension (Form 7004) based on the data entered on screen **1**. (See "Filing an Extension" on page 37.)

Security Information

Screen: **SEC**

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

Required **SEC** Data

The corporation's prior-year income is required in order to e-file 1120-S returns. If the return for the corporation was filed through Drake Tax last year, the **Total prior year income amount** is imported automatically when you update the 2020 return to 2021. (That amount also flows to the "2020" column of the **COMP** screen in the 2021 package.) If the corporation's return was *not* filed through Drake Tax last year—or if you wish to change the amount imported from 2020—enter the amount in the **Total prior year income amount** field of the **SEC** screen.

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

Electronic Filing

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



Note

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

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

Calendar-year returns are due on March 15, 2022. Fiscal-year returns are due on the 15th day of the third month (two and a half months) after the S corporation's year end. Returns can be e-filed after these dates; however, if an extension has not been filed, penalties and interest are applied.

Name Control

Use the **Entity Name Control** override field on screen **EF** *only* if your client has obtained a Name Control from the IRS.

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

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

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

In general:

- The Name Control can have fewer, but no more than, four alphanumeric characters. Blanks may be present only at the end of the Name Control.

- An ampersand (&) or hyphen (-) are the only special characters allowed in the Name Control.
- The Name Control should be determined from the information specified on the first name line. Generally, the Name Control is derived from the first four characters of the entity's name.

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

Forms for Foreign Corporations

Screens used to complete Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations, FinCEN Form 114, Report of Foreign Bank and Financial Accounts, and Form 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System, are found on the **Foreign** tab of the **Data Entry Menu**. For more details on completing these screens, see "Foreign Financial Accounts" in Chapter 5 of the *2021 Drake Tax User's Manual*.

Form 5471, Information Return

Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations, is used by certain U.S. citizens and residents who are officers, directors, shareholders, or partners in certain foreign corporations.

Click inside the various fields, press F1, and review the field helps provided in Drake Tax for more details on how to complete these forms, or refer to the IRS instructions for Form 5471.

Forms 965



New for 2021: With the continued phaseout of Form 965, Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System—commonly referred to as the "Transition Tax"—Form 965 should no longer be used for S corporations. As a result, screens **SFC**, **965**, **9652** (**Schedule F**), and **9653** (**Schedule H**) have been removed from the program.

Forms 965-D, Transfer Agreement Under Section 965(i)(2), and 965-E, Consent Agreement Under Section 965(i)(4)(D), can still be completed in Drake Tax using the respective **965D** and **965E** screens.

FinCEN Form 114

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

In data entry, open screen **EF** and mark the **FinCEN 114 only** check box, and view the return. "FinCEN114" is indicated on the EF Status page in View/Print mode (listed as "1120SEF" in the forms tree), and "Form 114" is 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" is displayed in the **EF Documents** column of the **EF Return Selector**.

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

- Drake Tax produces "EF Notice – FBAR" as an acknowledgment that the e-filed FinCEN Form 114 report was received.
- No other returns—state or federal—can be transmitted with the FinCEN Form 114 through Drake Tax.
- Form 114, Report of Foreign Bank and Financial Accounts (FBAR), can be e-filed through Drake Tax in the same way all returns are e-filed through Drake Tax. (See the *2021 Drake Tax User's Manual* for more information on the e-file process.) This report can also be completed and submitted through the BSA E-Filing System for the Financial Crimes Enforcement Network website at *bsaefiling.fincen.treas.gov/main.html*

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

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 PDF Documents to Drake Tax" on page 95. Otherwise, proceed to the proper section (either "Paper Document to PDF," following, or "Electronic Document to PDF" on page 94), 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 PDF Documents to Drake Tax" on page 95.

— 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 PDF Documents to Drake Tax

Screen: **PDF**

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 (Table 3).

Table 3: **PDF Attachment** Window Columns

Column	Description	Examples
Reference Source (This field is for your records only, is not transmitted with the PDF)	Name or number of regulation, publication, or form instruction that makes attachments necessary	• IRS Pub 4163 • Form Instructions for 4466
Description	Description of form or document to be attached	• Divorce decree • Bonus depreciation worksheet
File name	Distinctive, easily recognizable file name, followed by “.pdf”	• JohnsonDivorce.pdf • SmithInsolvency.pdf

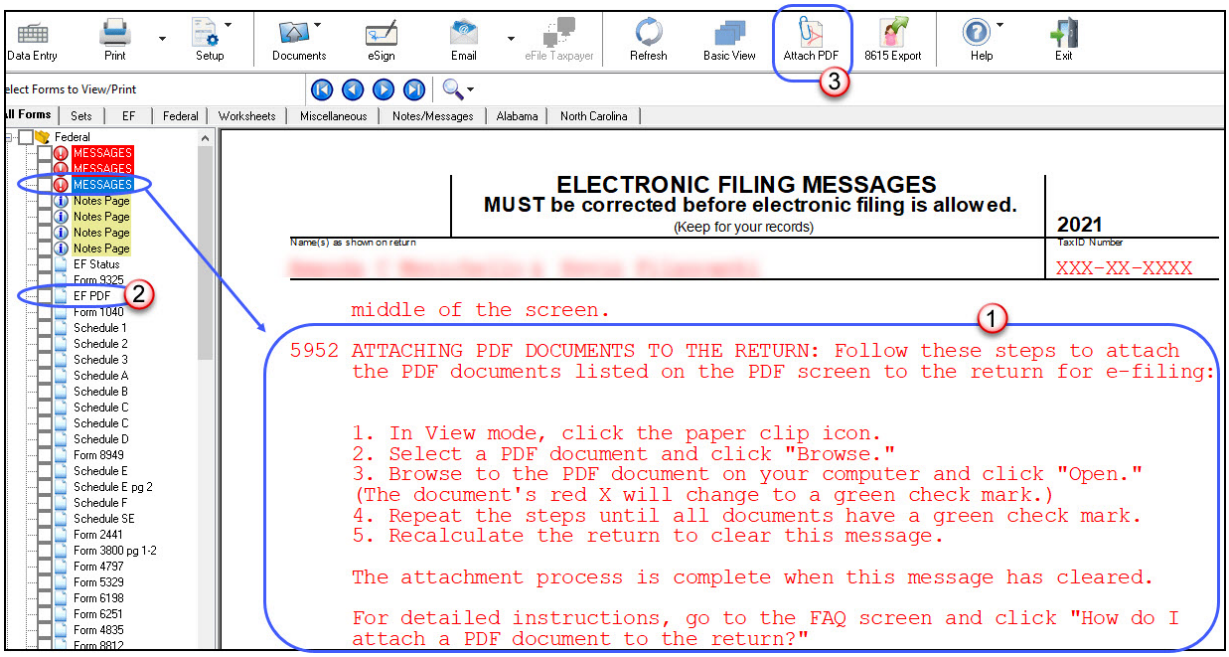
Attaching Documents to the Return

To attach a PDF file to a return:

1. From the return, click **View**. If anything was entered on the **PDF** screen, there will be three PDF–related items in the **View/Print** window:
   - A **MESSAGES** alert (item #1 in Figure 22 on page 96)
   - An **EF PDF** worksheet that lists all items entered on the **PDF** screen and any required attachments determined by the program (#2)

- An **Attach PDF** button on the toolbar (#3)

Figure 22: Present View/Print elements when screen **PDF** is used

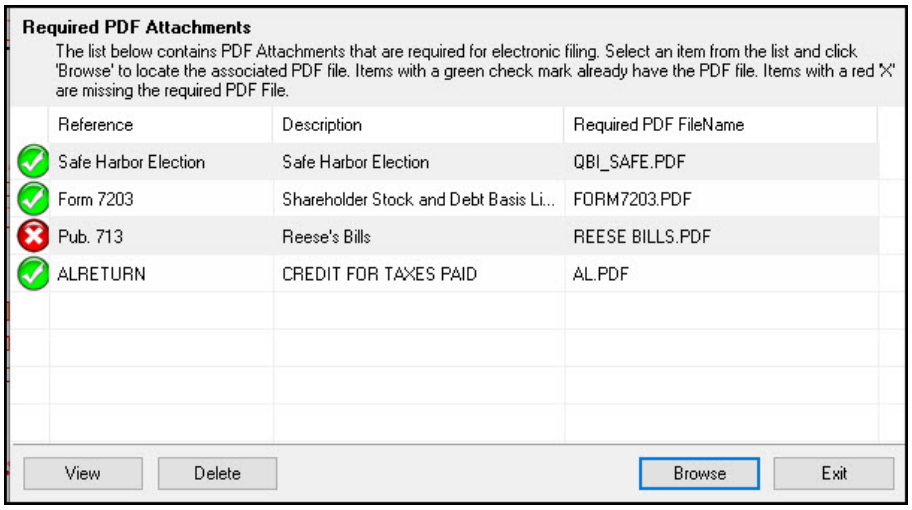


2. Click the "EF PDF" file from the forms tree to see a list of all documents entered on the **PDF** screen as well as any IRS required PDFs due to information indicated in the return.

3. Click the "MESSAGES" file to view EF Messages, including EF Message 5952, 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 23).

Figure 23: EF PDF Attachments window



5. To attach a document, select the appropriate document from the list, and click **Browse**.
6. Find the proper folder (where you saved the PDF document), 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 (have check marks in a green circle), recalculate the return to make sure all EF Messages have been cleared. If so, the return is ready to be e-filed.



NOTE

To view the attachment, click **View** while in the **EF PDF Attachments** window.

— Drake Tax-Generated PDFs —

Some required PDF attachments are generated by the program through data entry. These forms appear on the "EF PDF" page automatically and require no information be entered on the **PDF** screen. As per IRS e-file rules and regulations, these attachments still must be "attached" by the tax preparer using the steps provided in "Attaching Documents to the Return" on page 95.

Removing PDF Attachments

You can remove a file attached to a return with the **Delete** button on the **EF PDF Attachments** dialog box; doing so, however, produces EF Messages once more, directing you to complete the attachment. Removing the attached file does *not* eliminate the requirement of attaching a document.

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

- If the document 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 (data entry that requires additional documentation be attached to the return), you must modify data entry where necessary so that the attachment is no longer necessary.

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

Signing Generated Documents

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

Signing with Drake Portals



New for 2021: Certain Drake-generated documents and forms can be uploaded to and electronically signed using Drake Portals. Documents that meet this criteria are indicated in the forms tree of View/Print mode with an overlaying "pen" icon (figure left), making it easy to find and submit eligible documents to the preparer's portal. Signing with Drake Portals is a fast and easy alternative to the tedious process of printing, signing, scanning, and uploading that needs to be done with electronically-generated forms.

For more information on Drake e-Sign, see "Electronic Signatures" in Chapter 6 of the *2021 Drake Tax User's Manual*. To read more about Drake Portals, *visit https://www.drakesoftware.com/products/drake-portals/*

Importing Trial Balance Information

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

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

Preparing to Use Trial Balance Import

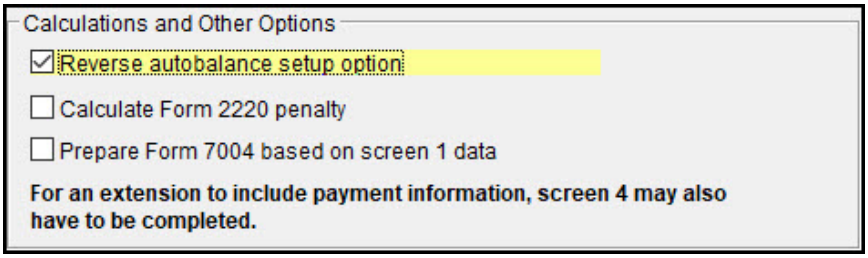
The trial balance import function can be used only on returns that were created in Drake Tax 2008 or later. Like several other functions of the tax program, this feature requires Microsoft Excel (version 2000 or later).

First, if you haven't already, create a client file (open a new return) in Drake Tax 2021, or update an existing client file from the prior year. Then create a trial balance worksheet. (See "Opening a Template" on page 100.)

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

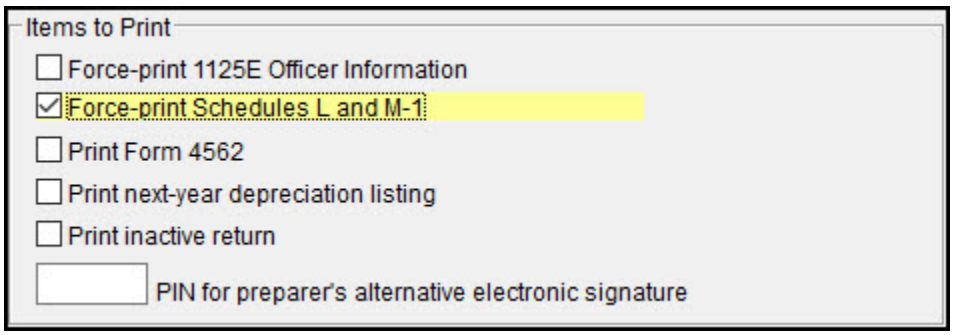
- **Activate Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro settings are set to "Disable all macros with notification." To do so, go to **File > Options** in Excel, select the **Trust Center** tab, and click **Trust Center Settings**. Click **Macro Settings** and select **Disable all macros with notification**, then click **OK**.
- **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. If the autobalance feature has not already been turned off globally at **Setup > Options > Calculation & View/Print** tab, you can disable autobalance on a per-return basis from the **PRNT** screen, accessible from the **Miscellaneous** tab of the **Data Entry Menu**. Select **Reverse autobalance setup option** (Figure 24).

Figure 24: Reversing the autobalance setup option on screen **PRNT**



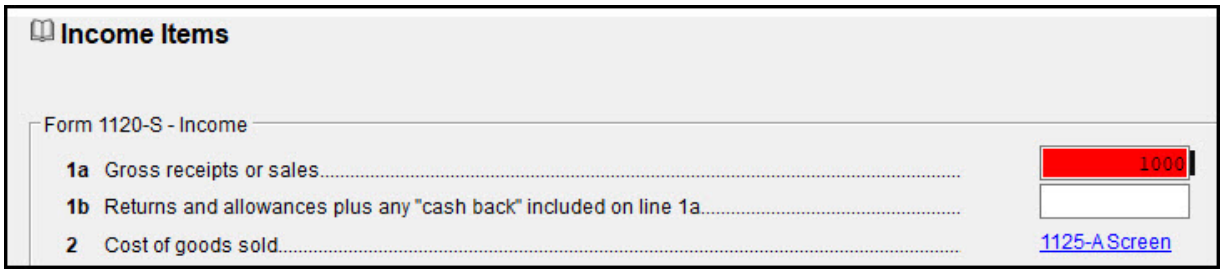
- **Force Schedule L** — By default, Drake Tax does not display the balance sheet amounts on the return if the entity does not meet the filing requirement. If this is the case, you have to override the default setting in order to generate Schedule L. To "force" the Schedule L amounts to be printed, go to the **PRNT** screen and select the **Force-print Schedules L and M-1** box (Figure 25).

Figure 25: Force printing Schedule L from screen **PRNT**



- **Check for Detail Worksheets** — The trial balance import allows only those Detail Worksheets required by the IRS. Check updated returns for Detail Worksheets that are not required. For example, the IRS does not require a detail worksheet for the **Gross receipts** field on the **INC** screen. If a return has a detail worksheet for that field—in other words, the preparer has created one here by double-clicking the field—the trial balance will not be imported correctly. By default, Detail Worksheets are indicated by red shading, as shown in Figure 26.

Figure 26: Red field shading denotes a present Detail Worksheet



  - **Delete** (CTRL+D) **Unnecessary Detail Worksheets Prior to Import** — See "Detail Worksheets" on page 103 for more information on using Detail Worksheets in the trial balance.

Preparing Financial Data for Import

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

Opening a Template

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

To open a trial balance template for a return:

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

NOTE

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

The trial balance template is displayed in Microsoft Excel.

File Location

Whenever a new template is opened, the tax program assigns it a default file location and name. Trial balance templates are saved in the "TB" folder of your Drake Tax 2021 program.

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

NOTE

If saving a trial balance to a different location, make note of where you store it. The program automatically looks in the default directory of Drake21/TB.

Template Structure

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

Table 4: Trial Balance Template Columns

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake Tax to which the debit or credit amount is imported
Reported on	Location of the amount on the printed return

Column	Description
Other Information	Additional details for preparers; see "Details for Preparers" on page 106

Displayed at the bottom of the trial balance worksheet is the calculated amount for Schedule M-1, line 1; the credit and debit totals; a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount, as seen in Figure 27.

Figure 27: An out-of-balance trial balance import sheet

Net Income (Loss) = Schedule M-1, line 1 ($1,000)		
Totals	$612,000	$470,000
	OUT OF BALANCE?	$142,000

Entering Financial Data

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

NOTE

Some data cannot be imported from the trial balance worksheet into the tax program and must be entered directly into the data entry fields within the program. For more on these categories of data, see "Special Conditions" on page 106.

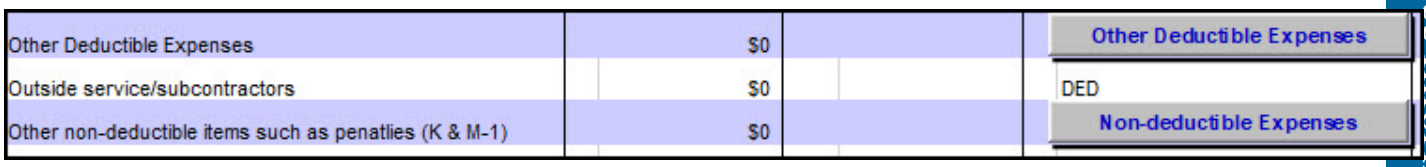
Direct Entry

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 of $0.

Detail Worksheets

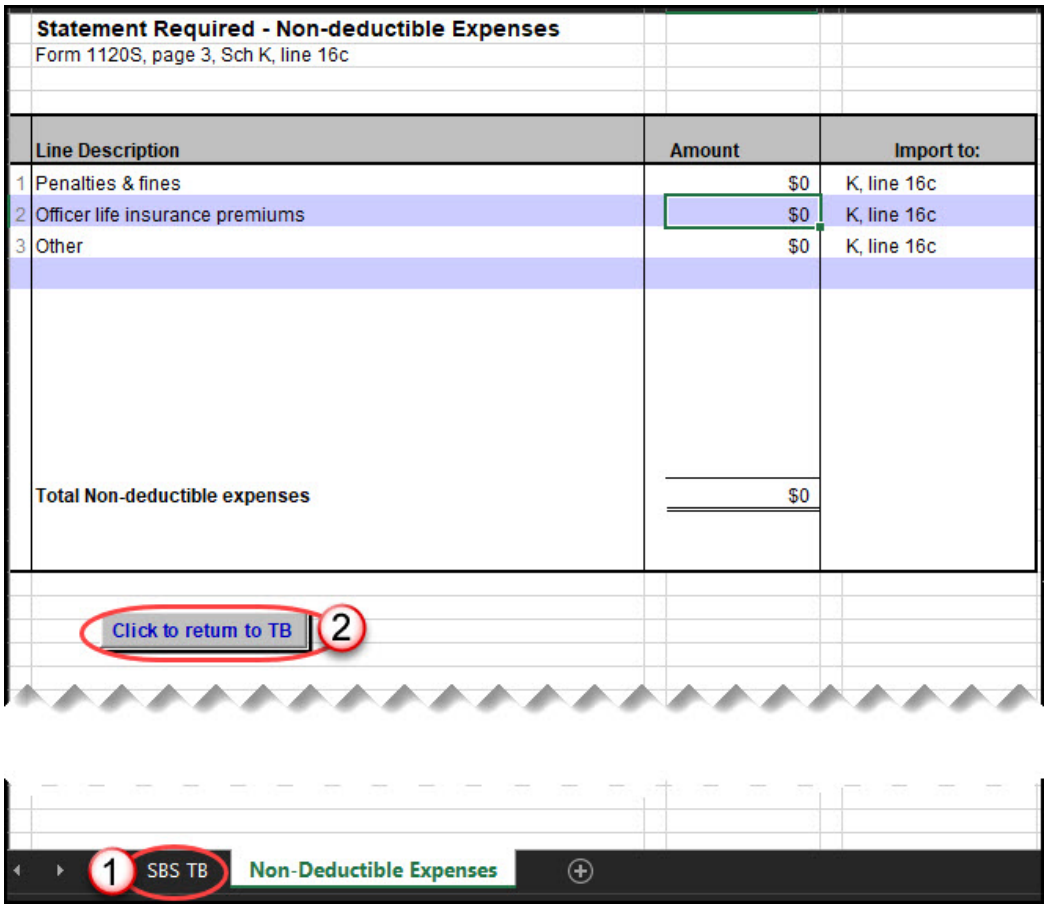
Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 28). Buttons do not work if macros are disabled; see the "Note" in "Opening a Template" on page 100.

Figure 28: Interactive buttons on the trial balance sheet



Click a worksheet button to open a worksheet in a new tab. Figure 29 shows an example of the "Non-deductible Expenses" worksheet.

Figure 29: The Non-deductible Expenses worksheet of the trial balance



To return to the previous worksheet, click the **SBS TB** tab (#1 in Figure 29), or click the **Click to return to TB** button above the worksheet tabs (#2). Note that some detail tabs might include one or more detail worksheets (in other words, buttons).

IMPORTANT

Do *not* create Detail Worksheets in data entry of the tax program if the trial balance worksheet does not provide an equivalent Detail Worksheet or the trial balance will not be imported correctly.

Totals

Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount. (See Figure 27 on page 102).

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

NOTE

The data cannot be imported if the worksheet is out of balance.

Saving a File

To save a file, click the **Save** icon or select **File > Save** from the menu bar. To rename a file when saving, select **File > Save As**. Trial balance templates are saved in the "TB" folder of your Drake Tax 2021 program.

Importing Data into a Return

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

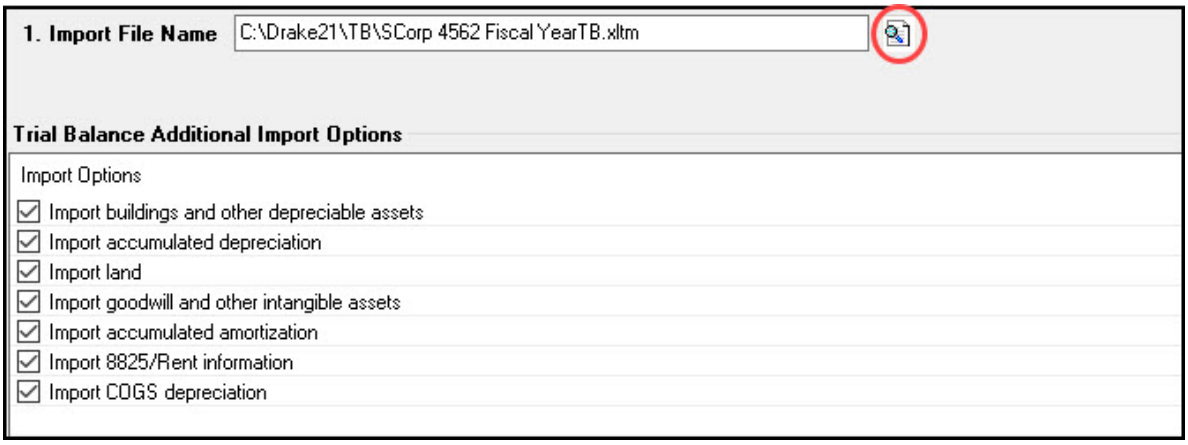
NOTES

Not all trial balance data can be imported directly into a return. For information on program limitations, see "Special Conditions" on page 106.

To import a trial balance into a return:

1. Open the return into which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Next**.
4. Enter or select the trial balance file to be imported. If necessary, click the button to the right of **1. Import File Name** (red circle in Figure 30) to browse to the proper folder. By default, each trial balance file is an Excel (.xls) file showing the client name and ending in "TB" for "trial balance," as shown in the example in Figure 30. (See "File Location" on page 101.)

Figure 30: Selecting the file for Trial Balance Import



5. Select any desired **Trial Balance Additional Import Options**. (See "Additional Import Options" following this procedure.)
6. Click **Next** and wait for the import to be completed.
7. Click **Finish**.

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

NOTE

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

Additional Import Options

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

- Buildings & Other Depreciable Assets
- Accumulated Depreciation
- Land
- Goodwill & Other Intangible Assets
- Accumulated Amortization
- 8825/Rent Information
- Cost of Goods Sold Depreciation

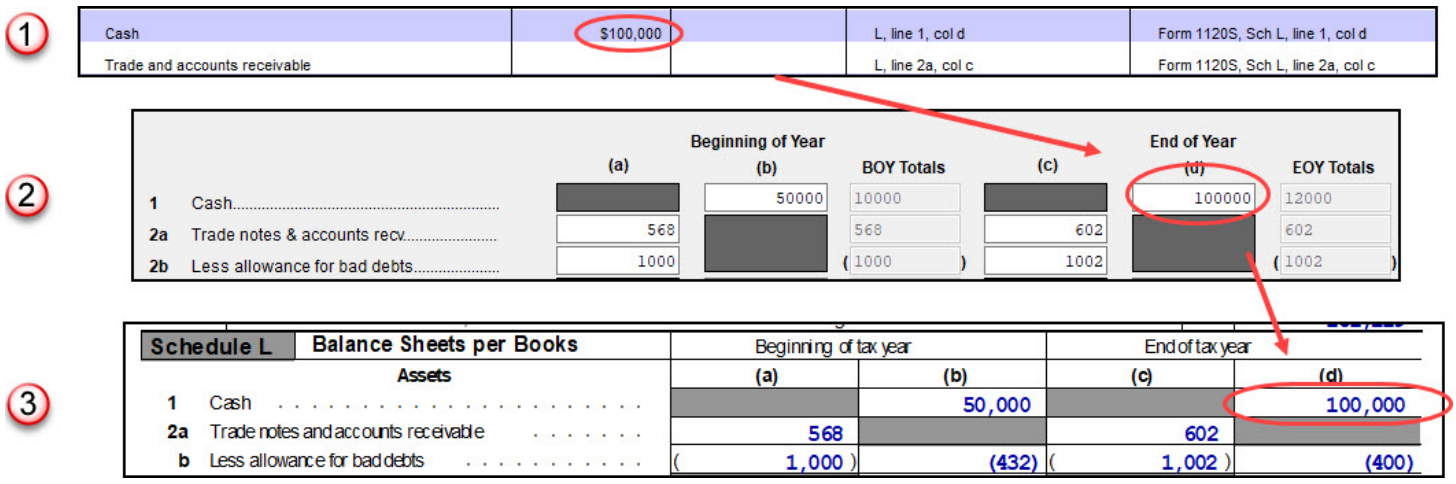
Special Conditions

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

Details for Preparers

Most trial balance items are imported directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 31 go to screen L, line 1, column d in the program and are shown on page 4, Schedule L, line 1, column d, of the 1120-S return.

Figure 31: The data flow process for trial balance imports



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 and is not included in the totals shown on the trial balance.
does not carry	Information cannot be imported and must be entered on the appropriate screen in Drake Tax. Screen is specified in "Reported on" column.
optional	Amount is optional; not required for import, but could require direct data entry in Drake Tax.
include deficit as negative number	Some deficits must be entered as negative numbers.
import includes the calculated change in inventory for the year	Used for "total purchases"; when calculating cost of goods sold (COGS) in the return, the program takes the change in inventory into account for the Form 1125-A calculation.
[Form, Schedule, or CTRL+W worksheet] may be required	Nonfinancial information must be completed in Drake Tax data entry in addition to the financial data entered in the worksheet.

All "does not carry" notes are accompanied by further instructions in the "Import to" column to the left of the "Reported on" column, as shown in Figure 32.

Figure 32: Further instructions for "does not carry" trial balance items

L, line 13b, col c	Form 1120S, Sch L, line 13b, col c	optional
Other assets detail	**SCH2** detail required in Drake	does not carry
L, line 16, end of year	Form 1120S, Sch L, line 16, col d	
L, line 17, end of year	Form 1120S, Sch L, line 17, col d	
Other current liab detail	**SCH2** detail required in Drake	does not carry
L, line 19, end of year	Form 1120S, Sch L, line 19, col d	

SCH2 Detail

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

To complete an **SCH2** detail screen in data entry:

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

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

To enter information on loans from shareholders to the corporation, click the **Loans from shareholder** link. (See "Loans from Shareholders" on page 60 for more information.)

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

See "The SCH2 Screen" on page 74 for more details on using the **SCH2** screen.

Depreciation

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

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

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



NOTES

- Enter screen **8825** and **RENT** depreciation amounts in the Detail Worksheets for importing purposes, but, if you are entering depreciation on

the **4562** detail screens, do *not* enter depreciation information on the **8825** or **RENT** screen.

- Accumulated depreciation is optional for the Trial Balance Import.
- Depreciation expense entered in the Trial Balance Import overrides depreciation calculated by the tax program.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A of the return, and the rental depreciation expense amounts flow directly to the appropriate lines of the **8825** and **RENT** screens, as applicable. Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry.

Note

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

— Rental Expenses —

The following information applies only to S corporations with multiple rental properties.

The S corporation trial balance includes lines for rental income and expenses (Figure 33 on page 109). Both rental expense items require a trial balance detail worksheet.

Figure 33: Rental expense rows on an S corporation trial balance import

Gross real estate rental income		$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	$0		Real Estate Rental Exp	requires detail
Gross other rental income		$50,000	RENT, line 1	Rent, Line 1
Total other rental expenses	$0		Other Rental Exp	requires detail
Gross royalties		$0	K, line 6	Schedule K, line 6

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

Because the trial balance worksheet has only one detail screen per rental type, the import 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. (Use the buttons in Figure 33 on page 109).
3. Ensure that the balance sheet is in balance.
4. Import the trial balance worksheet into the return. The applicable screens in data entry now contain the figures entered on the trial balance worksheet.
5. Enter the amounts on additional screens that require details. (For more information on data that cannot be imported, see "Special Conditions" on page 106.)
6. Compare the M-1, line 1 amount on the trial balance to the M-1, line 1 amount on the calculated return to ensure that they match.



NOTE

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

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



NOTE

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

Other Program Imports

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

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

1. Open a client's tax return.
2. From the **Data Entry Menu** toolbar, click **Import > Form 4562 Import**.
3. Click the **Form 4562 Import information and sample spreadsheet** link to open Drake Software Knowledge Base article 15982 on downloading the worksheet template. (Also in that article is a **4562 Import** link to an instructional video.)
4. In the 15982 article, scroll down to **2021 — 1120S — 4562 Import Template**. Click to download the template.

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

To use the 4562 Import feature:

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

Note

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

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

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

Tip

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

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, from a TAB (tab delimited) file, or a .CSV (comma separated value) file.

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

1. From the **Home** window toolbar in Drake Tax, click **Support > Drake Software Knowledge Base**.
2. When the Drake Software Knowledge Base is opened, in the **Quick Search** field in the top-right corner of the window, type `10139` and click the magnifying glass icon on the right.
3. After the search has been completed, click 10139: Schedule D Form 8949 GruntWorx Trades Import from the Search Results.
4. In article 10139, scroll down to **Attachments** and click **Drake20–Drake21 Blank Excel Spreadsheet with 8949 Import Headers**.

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



IMPORTANT

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

To use the 8949 Import feature:

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

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



Notes

- Click the **8949 Import Options** and **8949 Import Tool** links in KB article 10139 to view instructional videos on using the 8949 Import feature.
- For more help, click **Help** from the **Form 8949 Import** window (in Step 3, above) or see "Form 4562 Import" and "Form 8949 Imports (1040 Package)" in Chapter 5 of the *2021 Drake Tax User's Manual*.

Form 3115, Change in Acct. 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.



Notes

- Form 3115 must *always* be paper-filed.
- Applicants filing Form 3115 should refer to the IRS and relevant revenue procedures for a list of automatic changes to which the automatic change procedures apply.

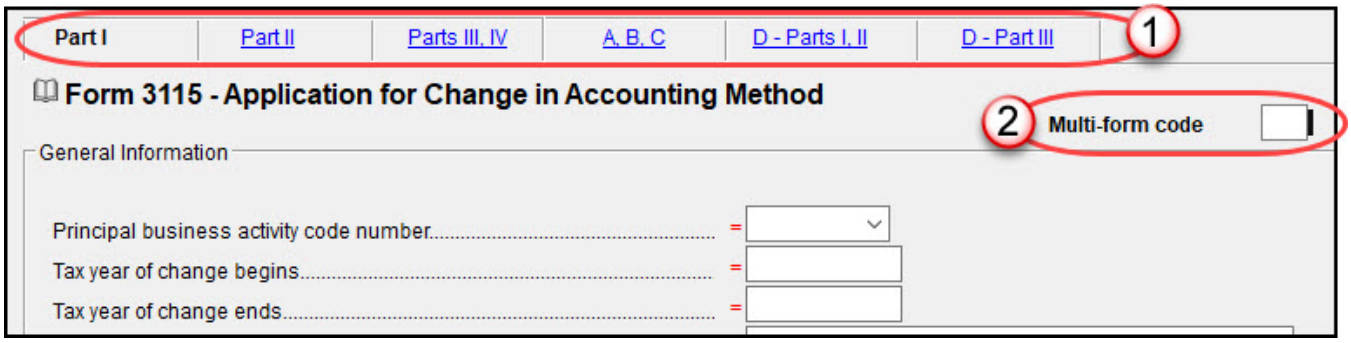
Changing Accounting Method Screens

Several screens may be required for completing Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the **Other Forms** tab of the **Data Entry Menu**. These screens include:

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

When you open screen **3115**, the program displays the first of six tabs. As shown in Figure 34, you can access the various **3115** screens by clicking a tabbed link at the top of any of the **3115** screens (item #1).

Figure 34: The various **3115** screens



Multi-form Codes

All **3115** and related screens contain a Multi-form code text box (item #2 in Figure 34) that allows you to link a screen or attachment to a particular Form 3115.

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



NOTE

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



TIP

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

Notices of Missing Attachments

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

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



NOTES

- All EF Messages must be resolved before the return is eligible for e-file. EF Messages for Form 3115 attachments are resolved when all required statements have been attached to the return and the messages are no longer generated.

- In View/Print mode, various Return Notes appear on the Notes Page. These Return Notes provide information or reminders about the return but do not prevent e-file. They are informational only.

- To keep a specific Return Note from being generated whenever you view this return, open the **HIDE** screen (available from the **Miscellaneous** tab of the **Data Entry Menu** or by typing HIDE into the selector field and pressing ENTER), type the number of the note to hide into one of the boxes, and then recalculate the return.