



# Drake Tax® Manual

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Individual, Gift Tax,  
and Estate Returns

1040, 709, and 706

Drake Tax®

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# What's New for 2023

## *Individual, Gift Tax, and Estate Returns*

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Following are brief descriptions of some of the updates and enhancements to the Drake Tax program, along with changes to tax forms and tax laws made by the IRS that affect individual, gift tax, and estate returns. Unless otherwise stated, all changes are effective for the 1040 package *only*. Items with an  icon are designated as “in development” and will be available later in Drake Tax 2023. For a more complete look at these changes and how they affect you and your business, consult the [2023 Drake Tax Manual](#), available on the CD and from your [User Account](#).

### Important IRS Changes

The following sections address important IRS changes that affect the 2023 tax season.

### Inflation Reduction Act (IRA) of 2022

The Inflation Reduction Act, passed August 16, 2022, is a 10-year plan aimed to curb inflation by reducing the federal government budget deficit and lowering prescription drug prices while investing in and promoting green domestic energy production and manufacturing. The IRA brings with it many tax changes that affect tax year 2023.

### New Forms and Schedules

As a result of the IRA, the following forms are new for tax year 2023 and have been added to Drake Tax:

- **Form 7205, Energy Efficient Commercial Buildings Deduction** — 1040, 1120, 1120-S, 1065, 1041, and 990 packages

- **Form 7207, Advanced Manufacturing Production Credit** — 1040, 1120, 1120-S, 1065, 1041, and 990 packages
- **Schedule A (Form 8936), Clean Vehicle Credit Amount** — 1040, 1120, 1120-S, 1065, 1041, and 990 packages

## Modified Forms and Schedules

The following forms have been reworked as a result of the IRA:

- **Form 3468, Investment Credit** — The form has been expanded from three to ten pages and is used to take the following credits (1040, 1120, 1120-S, 1065, and 1041 packages):
  - Qualifying Advanced Coal Project Credit
  - Qualifying Gasification Project Credit
  - Qualifying Advanced Energy Project Credit
  - Advanced Manufacturing Investment Credit
  - Energy Credits
  - Rehabilitation Credit
- **Form 3800, General Business Credit** — Form 3800 has been expanded from three to eight pages and redesigned to support provisions from the IRA and Creating Helpful Incentives to Produce Semiconductors Act of 2022 (CHIPS) (1040, 1120, 1120-S, 1065, 1041, and 990 packages).
- **Form 5695, Residential Energy Credits** — The former Nonbusiness Energy Property Credit has been expanded and renamed the Energy Efficient Home Improvement Credit, and the former Residential Energy Efficient Property Credit has been redesigned as the Residential Clean Energy Credit. The Energy Efficient Home Improvement Credit has been extended to property placed in service through December 31, 2022; the Residential Clean Energy Credit rate for property placed in service from 2022 – 2033 is 30%. As a result of these changes, screen **5695** (Residential Energy Credits) has been redesigned and split into two tabs.
- **Form 8835, Renewable Electricity Production Credit** — The form has been expanded from one page to three pages, with Part I used to collect information on the qualifying facility (1040, 1120, 1120-S, 1065, and 1041 packages).
- **Form 8936, Clean Vehicle Credits** — The former Qualified Plug-in Electric Drive Motor Vehicle Credit has been renamed Clean Vehicle Credits, and the form has been reduced from two pages to one page, with many of the removed lines now located on Schedule A (Form 8936). Use the new screen **936A** to record vehicle information on Schedule A (Form 8936) (1040, 1120, 1120-S, 1065, 1041, and 990 packages).

## New Spanish Forms

In an ongoing effort of to promote inclusion, the IRS has created Spanish versions of the following forms; these forms are now supported in Drake Tax:

- Form 1040-SS, U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico) / *Declaración de Impuestos Federal sobre el Trabajo por Cuenta Propia (Incluyendo el Crédito Tributario Adicional por Hijos para Residentes Bona Fide de Puerto Rico)* — Replaces Form 1040-PR
- Schedule C (Form 1040), Profit or Loss From Business / *Ganancias o Pérdidas de Negocios*
- Schedule F (Form 1040), Profit or Loss From Farming / *Ganancias o Pérdidas de Negocio Agropecuario*
- Schedule H (Form 1040), Household Employment Taxes / *Impuestos sobre el Empleo de Empleados Domésticos*
- Schedule SE (Form 1040), Self-Employment Tax / *Impuesto sobre el Trabajo por Cuenta Propia*

## Other Forms and Schedules

The following forms have also been added or updated for tax year 2023.

### Form 1040-SS

Form 1040-SS has been reduced to two pages and is now supported in Spanish. Like 1040 returns, Schedules C, F, and SE are now automatically attached to the return as needed.

### Form 1099-K

Per the American Rescue Plan Act of 2021, taxpayers who received \$600 or more in aggregate payments during the year from a qualifying third-party payor must be issued Form 1099-K and report its information on their tax return. Originally, reporting changes were set to take place in 2022 but have since been delayed. (See [Notice 2023-10](#) and [Notice 2023-74](#).)

For tax year 2023, Form 1099-K continues to be issued for taxpayers who receive more than \$20,000 in payments over more than 200 transactions from a single qualifying third-party payor.



Even if the taxpayer does not receive Form 1099-K, transactions that would otherwise be reported on Form 1099-K are still taxable.

### Form 7206

Form 7206, Self-Employed Health Insurance Deduction, has replaced the Self-Employed Health Insurance Deduction Worksheet (Schedule 1, Form 1040, Line 17) previously published in IRS Pub. 535. Complete this form using screen **SEHI** (Form 7206 – SE Health Insurance) as in years past.

## Expired Forms and Screens

The following forms and screens have been removed from Drake Tax:



- Form 1040-PR, U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico) / *Declaración de Impuestos Federales sobre el Trabajo por Cuenta Propia (Incluyendo el Crédito Tributario Adicional por Hijo para Residentes Bona Fide de Puerto Rico)* — Replaced with Form 1040-SS; screen **SSPR** has been renamed screen **SS**
- Form 8910, Alternative Motor Vehicle Credit — Expired in 2022; screen **8910** has been removed from the 1040, 1120, and 1041 packages. Use screen **8910** for 1120-S and 1065 returns only if an 8910 pass-through credit is present; these credits flow to Part II of Form 8910.
- Self-Employed Health Insurance Deduction Worksheet (Schedule 1, Form 1040, Line 17) — Replaced with Form 7206, Self-Employed Health Insurance Deduction

## Corporate Transparency Act (CTA)

1040  
1120  
1120-S

Effective January 1, 2024, the CTA requires reporting companies (1120 and 1120-S companies, as well as certain self-employed individuals with Schedules C), both domestic and foreign, that do business in the United States to report [beneficial ownership information \(BOI\)](#) and company applicants to the Financial Crimes Enforcement Network (FinCEN). For reporting purposes, a beneficial owner is any individual who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, exercises substantial control over the reporting company or owns or controls at least 25% of the ownership interests of the reporting company. Refer to 31 U.S.C. §5336(a)(3)(B) for a full list of exempted beneficial owners.

Businesses that exist or are registered prior to January 1, 2024, have until January 1, 2025, to file initial reports, whereas businesses created or registered on or after January 1, 2024, have 90 days after official registration or creation. Initial reports must contain:

- Identifying information on the reporting company:
  - Legal name, trade name, and DBA
  - Address of principal place of business
  - Jurisdiction in which the business was formed or first registered
  - Tax ID number
- Identifying information on beneficial owners and company applicants:
  - Legal name
  - Date of birth
  - Current address
  - State or federally recognized ID number (passport, driver's license, etc.)
  - Image of state or federally recognized ID



In lieu of acceptable identification documentation, an individual or company may provide a unique identifier assigned by FinCEN (FinCEN Identifier).

BOI reports must be filed with [FinCEN](#). Included in **Tools > Blank Forms** is a Beneficial Owner Information Reporting Data Entry Checklist to aid beneficial owners in gathering the information they need to complete their report. (Search BOIR.) Updated reports must be filed when key information regarding the reporting entity or company applicant changes, or if there is a change in beneficial ownership (including changes to identifying information); updates or corrections must be submitted within 30 days of the change. Access the BOI page of FinCEN directly from screen [FAQ](#).

To help preparers track which taxpayers and entities have filed BOI reports, a **Beneficial Owner Information** section has been added to screen **MISC** (Miscellaneous Codes/Notes). These fields are for reporting purposes only, and, when completed, can be used to produce informational BOI reports via the Drake Tax Report Manager. See [Knowledge Base article “18339: Creating a Beneficial Ownership Information \(BOI\) Report”](#) for instructions on creating these reports. Refer to the [FinCEN BOI FAQ page](#) for additional information.

## General Program Updates

The following sections contain information regarding additional Drake Tax 2023 updates.

## Additional Support for Certain Forms

- Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals), has been added for 1065 returns. Use screen **WBEN** (Certificate of Foreign Status of Beneficial Owner) to enter data from Form W-8BEN. Data entered on this screen flows directly to Form W-8BEN; no calculations are performed.
- Corrected Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, can now be e-filed with amended returns in Drake Tax. To produce a corrected Form 5471, complete the following steps using screen **INFO** (for 1040 returns) or **SUPP** (for 1120, 1120-S, 1065, and 990 returns):
  - a. Enter the appropriate **Multi-form code for 5471** for which the corrected Form 5471 is being filed.
  - b. Select **COR** from the **Supplemental Information Selection** drop list.
  - c. Enter an **Explanation** identifying the changes.

## Screen Changes and Enhancements

- **Screen 2 (Dependents)** — Screen 2 has been redesigned and separated into two tabs: **Dependent** and **Due Diligence**. The **Due Diligence** tab needs to be completed only if the taxpayer is claiming the Earned Income Credit (EIC), (Additional) Child Tax Credit ((A)CTC),

or Other Dependent Credit (ODC) for the associated dependent. If required due diligence information is missing or invalid, an EF Message now specifies from which dependent the error originates.

A check box to **Include dependent on Form 2441 without qualified expenses** has also been added to the **Dependent** tab. Any dependent for whom this option is marked is used to calculate the Child and Dependent Care Credit limit on Form 2441. Divorced or separated taxpayers who otherwise qualify for the Child Tax Credit and also possess a completed Form 8332 (or similar statement) signed by the custodial parent can easily claim the Child Tax Credit by selecting the corresponding check box in the **Overrides** section on the **Due Diligence** tab of screen **2**.

Figure 1: An Overview of the **Dependent** Tab of Screen **2**

The screenshot shows the 'Dependent' tab of Screen 2 in the Drake Tax software. The 'Dependent' tab is selected, and the 'Due Diligence' tab is visible at the top. The 'Dependent Information' section contains fields for Dependent first name (REESE), M.I. ( ), Last name (if different) ( ), Suffix ( ), SSN (400), Relationship (DAUGHTER), Months in home (12), and Date of birth (12-18-2018). It also includes checkboxes for SSN or ITIN applied for but not yet received, Dependent born and died in 2023; no SSN received, and SSN not valid for work. The 'Childcare Expense Information' section shows Qualifying childcare expenses incurred and paid in 2023 (2500) and Portion of qualifying expenses provided by employer (2500). The 'Additional Information' section contains checkboxes for Does not qualify for EIC, Over 18, under 24, and a student, Disabled, Dependent lived with taxpayer, Dependent did NOT live with taxpayer due to divorce or separation, Other type of dependent, Not a dependent, Not a dependent - Taxpayer is HOH qualifier, Not a dependent - Taxpayer is QSS qualifier, Do NOT update dependent to next year, and ITIN special circumstance. The 'State-Specific Information' section includes fields for TSJ ( ), State ( ), State codes ( ), and a checkbox for Dependent has insurance.

- **Screen 1 (Name and Address)** — A **Change of address from last year** field has been added to the **Mailing Address** section. If this option is marked, the taxpayer is not required to file Form 8822, Change of Address.
- **Screen 1099 (1099-R, Retirement)** — A **Rollover or conversion into another account** option of **C – IRA converted to Roth IRA** has been added to the **Rollover and Conversion Information** section of screen **1099**. Selecting this option automatically carries the **Taxable amount** or **Partial rollover or conversion amount** to line 16 of Form 8606, eliminating the need to make partial distribution conversion adjustments on screen **3**.
- **Screen 4684 (Casualty and Theft Losses)** — A **Main home exclusion (if applicable)** field has been added to line 3/21. Use this field to enter the maximum amount of excludable gain due to the destruction of the taxpayer's main home, and enter the full **Insurance or other reimbursement** amount in the second field on line 3/21. Drake Tax automatically produces and e-files the required statement with the return.

- **Screen 8697 (Look-Back Method – Completed Contracts)** — Multiple Forms and screens **8697** can now be created in Drake Tax, allowing more than three years to be reported for any individual contract. All screens **8697** with the same **EIN** are automatically grouped onto the same Form 8697; totals are printed on the first page, and amounts for each year are broken down on additional pages (1040, 1120, 1120-S, 1065, and 990 packages).
- **Screen 8839 (Qualified Adoption Expenses)**
  - Option **E – Adoption final, employer had a written plan but paid no benefits** has been added to the **Child with special needs** drop list. When selected, page 2 of Form 8839 is prepared, regardless of data entry. If no employer benefits are added from Form W-2, line 20 of Form 8839 (“Employer-provided adoption benefits you received in 2023”) equals “0” (zero).
  - A **Prior-year carryover allowed** check box has been added for current-year MFS taxpayers whose status was MFJ in the year qualified adoption expenses first became allowable for the credit. When selected, all data on screen **8839** is ignored except for carryovers.
  - The five-year carryforward limitation for the Adoption Credit is now automatically tracked. Fields for the prior five tax years have been added to screen **8839** to begin the tracking process; any remaining carryforward will be updated automatically to Drake Tax 2024.
- **Screen AUTO (Auto Expense Worksheet)** — Screen **AUTO** is used to report actual expenses or mileage in Drake Tax. When an **AUTO** screen is completed, an Auto Expense Detail Worksheet (“Wks Auto” in View/Print mode) is produced with a breakdown of the auto expenses. For individual returns, Drake Tax uses the worksheet to automatically determine and apply the more advantageous deduction—the one based on actual expenses or mileage.

Beginning in Drake Tax 2023, more than six vehicles can be recorded and tracked for Form 4562, Part V, Section B. To track multiple vehicles, create one screen **AUTO** per vehicle or additional screens **9** (4562, Parts V(B) and V(C)) as needed; vehicle usage data entered on screen **AUTO** should *not* be duplicated on screen **9** and vice versa. Vehicles in excess of six are reported on a Federal Supporting Statement that is transmitted with the return (1040, 1120, 1120-S, 1065, and 1041 packages).

- **Screen HOME (Sale of Residence)** — A **1099-S was received** option has been added to the **Miscellaneous** section of screen **HOME**. Mark this box to carry the gain or loss of the home to Form 8949.
- **Screen PROP (Gross Estate Property)** — Additional **Beneficiary Information** tabs have been added to screen **PROP**, allowing up to 63 beneficiaries to be entered per property (706 package).
- **Screen SEP (SE Pensions)** — A **Schedule 1, line 16, self-employed SEP, SIMPLE, and qualified plans** override field has been added to screen **SEP**. Use this field if you do not want to use the Worksheets for Self-Employed Rate and Deduction (WK\_SEP) to determine the taxpayer's maximum deductible contribution. Use the **For** and **Multi-form code** fields on screen **SEP** to associate data entered in the new override field with the appropriate business activity for the purpose of computing qualified business income.
- Distributions in excess of basis from partnerships now flow from screen **K1P** to screen **8949**.

## New/Updated Worksheets and Statements

- **Form 2441, Line 9** — The **2022 Expenses Paid in 2023** section on screen **2441** has been replaced with a **Worksheet for 2022 Expenses Paid in 2023** link. Use this link to enter data regarding qualified dependent expenses incurred in 2022 but not paid until 2023. When any amount is entered on lines 1 – 11, the IRS Form 2441 Worksheet for 2022 Expenses Paid in 2023 (“Wks 2441” in View/Print mode) is produced, and the result flows to line 9b of Form 2441. If an override is entered on line 13, no worksheet is produced, the amount flows directly to line 9b, and statement **441** must be created using screen **SCH**.
- **Roth Basis Computation Worksheet (ROTH\_BAS)** — 401(k) and other qualified plans that are rolled over to a Roth IRA are now reported on **ROTH\_BAS** when code **G – Taxable direct rollover to Roth, reported directly on Form 1040** is selected from the **Rollover or conversion into another account** drop list on screen **1099**.
- **Tax Return Comparison 2021/2022/2023 (“Comparison” in View/Print mode)** — The amount of itemized deductions is now always included on the Comparison worksheet, even if the taxpayer takes the standard deduction, unless the option **Do NOT print itemized deductions on the Tax Return Comparison if claiming the standard deduction** is marked on screen **PRNT**. To begin the tracking process, itemized deduction amounts from 2021 and 2022 must be entered on screen **COMP**; itemized deduction amounts will be updated automatically to Drake Tax 2024.
- **Worksheet for Accrued Market Discount Adjustment in Column G (“Wks 8949” in View/Print mode)** — Select the **Use worksheet for accrued market adjustment** check box on screen **8949** to produce “Wks 8949.” This worksheet is used to determine the adjustment amount that flows to column (g) of Form 8949 and the related bond-sale interest to be reported on the return.

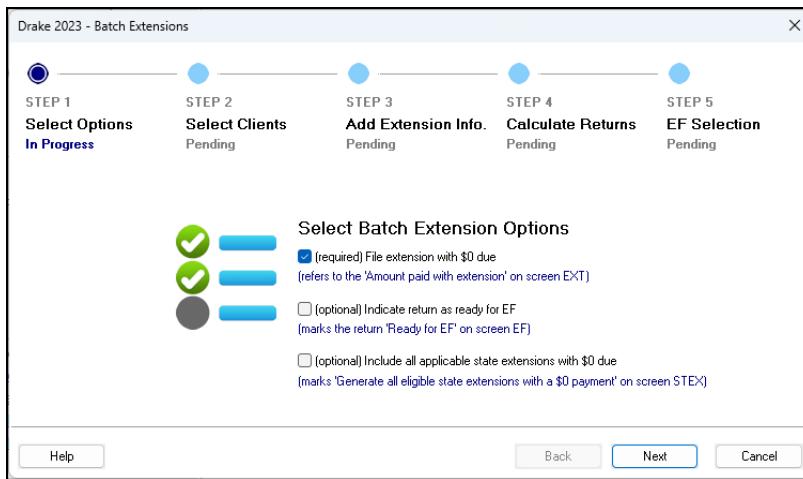
## Practice Management Updates

Many of Drake Software’s changes throughout this past year have been dedicated to improving your user experience and making Drake Software an easier to use, more efficient, comprehensive product suite you can rely on at all stages of tax preparation. These changes are happening in stages, which will allow the next generation of Drake Tax to do far more than its predecessor.

While this transition is underway, Drake Software would like to extend its gratitude for your patience and understanding. Many more user-requested updates than those following are currently in development, and Drake Software is excited to unveil them when complete.

## Batch Extensions

Beginning with Drake Tax 2023, preparers can e-file extensions for multiple federal 1040 and individual state returns at once (in batches). In order to use this feature, all federal extensions must be filed with \$0 due; if **Require ‘Ready for EF’ indicator on EF screen** is activated at **Setup > Options > EF** tab, the option **Indicate return as ready for EF** is also required.

Figure 2: New **Batch Extensions** Window

From the Drake Tax **Home** window, select **EF > Prepare Extensions** to begin the batch extension process, and follow the on-screen steps.



While extensions with a balance due *cannot* be filed in batches, the batch extension feature can still automatically complete much of the data entry needed for transmitting them. Proceed through the batch extension process as though the returns had zero due with the extension, but do *not* transmit them for e-file. Afterward, open the return, and enter the applicable **Amount paid with extension** on screen **EXT**. All other screens related to filing extensions are already complete. From here, transmit the extension using the method you have in years past.

## New Products

Part of Drake Software's ongoing commitment to excellence is to provide customers with not only a wider variety of products but ones that fall within their budget. To achieve this, Drake Tax is now available in three tiers—PPR, 1040, and Pro—ensuring you pay for only what you need. And to make sure *you* get paid the money you deserve, Drake Software has launched a new modern payment facilitation solution: Drake Pay™.

## Drake Tax 1040 and Drake Tax Pro

Drake Tax preparers who prepare 1040 returns only can now take advantage of Drake Tax 1040, allowing them to get the full Drake Tax experience at a lower price. Should preparers need to file a business return, they can do so at the same pay-per-return (PPR) price of \$49.99 per return. Preparers can upgrade to Drake Tax Pro at any time for the retail price difference (\$400).

Practitioners who prepare many tax returns of different types should purchase Drake Tax Pro to get the best value.

## Drake Pay



This year, Drake Software partnered with Infinicept®—a leading provider of embedded payment solutions with an outstanding reputation in the financial services industry—to redefine and expand the payment acceptance solution we offer our clients. Drake Pay is Drake Software's new payment facilitation offering that, unlike e-Pay, accepts many modern payment methods, allowing preparers to get their money faster, all with enhanced security.

With Drake Pay, preparers have more ways to collect payments from their customers, including credit, debit, and contactless payments—but more importantly, clients can rest easy knowing they are using a no-compromise security payment acceptance solution. Via Infinicept's Launchpay™ solution, Drake Pay customers are able to take advantage of Launchpay's certified technology, which conforms to all Payment Card Industry (PCI) Secure Software standards; the technological components used by Launchpay are also included on the Validated Payment Software list maintained by the PCI Security Standards Council. Drake Pay clients will also have access to free educational resources related to payment safety and security.

Drake Pay is integrated with Drake Tax®, Drake Zero®, Web1040®, and Drake Portals™. With the launch of Drake Pay, clients can no longer sign up for e-Pay. Existing e-Pay customers are encouraged to sign up for Drake Pay; however, once signed up, customers can no longer use e-Pay. e-Pay clients who refrain from signing up for Drake Pay can continue to use e-Pay services through October 31, 2024—e-Pay's official sunset date.

Collect payments within Drake Tax by manually entering card information or via a compatible point-of-sale (POS) system. (For instructions on purchasing compatible devices, see [Knowledge Base article 18413](#).) The device must then be configured at **Setup > Printing and Device Setup > Drake Pay**; control who can access POS configurations with group security (**Setup > Preparer(s) > Security > Edit Group Security Settings > Setup tab > Printing and Device Setup > Drake Pay**). Transactions made in Drake Tax using Drake Pay are automatically updated on the taxpayer's **BILL** screen. For more on using Drake Pay within Drake Tax, refer to the [2023 Drake Tax Manual](#).

Visit the [Drake Pay information page](#) to learn more. To sign up for Drake Pay, log in to your User Account ([Support.DrakeSoftware.com](https://Support.DrakeSoftware.com)), and choose **Products > Drake Pay**.

For customer assistance, email [DrakePaySupport@DrakeSoftware.com](mailto:DrakePaySupport@DrakeSoftware.com) or call (828) 349-5724.

### — Drake Pay Manager —

The Drake Pay Manager ([DrakePay.DrakeSoftware.com/Manager](https://DrakePay.DrakeSoftware.com/Manager)) lets you view detailed transaction information on payments made using Drake Pay, as well as void and refund payments. A transaction can be voided only if the bank has yet to issue funds; otherwise, it must be refunded.

The Drake Pay Manager can be launched from the Drake Software User Manager ([User.DrakeSoftware.com](https://User.DrakeSoftware.com)) and can be accessed only by those with sufficient permissions. View [Knowledge Base article "18332: Drake Pay Manager"](#) to learn more.

# Drake Pay™

## e-File Task Consolidation



Released March 13, 2024, the **e-File Status** feature on the Drake Tax **Home** window is an expansion upon the existing e-File Database. e-File Status helps consolidate e-file tasks—including **EF > Transmit/Receive > Acks Only** and **EF > Process Acks**—while allowing you to check your firm's up-to-date e-file records using the EF Database you are already familiar with (**EF > Search EF Database**). The new e-File Status can be accessed only by those with sufficient Drake Tax security permissions.

Upon clicking **e-File Status**, you are given the option to check for and process new acknowledgments from recently e-filed returns. If you have new acknowledgments from Drake Software that need to be processed, a red indicator appears on the e-File Status icon. All information received through e-File Status is automatically added to the EF Database, accessible from both Drake Tax and the Support site ([Support.DrakeSoftware.com](https://Support.DrakeSoftware.com) > **Reports > E-file Status Lookup**).

## Additional Form 9325 Email Notifications

In addition to federal 1040-series returns (1040, 1040-NR, 1040-SS, and 1040-X), taxpayers and business entities can now be automatically notified when any of the following returns are accepted by the IRS or state taxing authority:

- Individual state returns
- Federal business returns (1120, 1120-S, 1065, 1041, and 990)
- State business returns
- FBARs

Notifications are sent to the taxpayer's or entity's email address on screen **1** (or screen equivalent). As in prior years, 1040-series returns will continue to have a PDF version of Form 9325 attached to the acceptance email; all other returns will receive only an email, satisfying the IRS requirement of a Form 9325 equivalent. Email notifications are *not* sent for accepted extensions.

To receive automatic acceptance emails, the option **Email 9325 Notice to Taxpayer** must be activated in Drake Tax (**Setup > Options > EF** tab); this option can be overridden for 1040-series returns on a per-return basis using the **Email 9325 notice to taxpayer** drop list on screen **EF**. Preparers can modify the "From" email address displayed on the email via their User Account (**Account > Account Info > Form 9325 "From" email address**).

## Updated Pricing and Form Order

The new **Pricing Setup** window has combined and optimized the functionality of the prior-year **Pricing Setup**, **Printing, Sets**, and **Sort Form Order** windows.

In one convenient location, choose the applicable **Return Type** and use the **Fed/State** drop list to filter by federal, state, and city forms. Double-click any field to adjust a variety of details, including form descriptions, global prices, and the quantity and type of copies in specific sets. Click, drag, and

drop multiple forms at once to modify the order in which they appear in View/Print mode (available when the **Category** is **Default View**), and easily indicate what documents to display on client bills.

**Search** the current list view for desired forms, using the arrow keys to navigate through the search (or, alternatively, use F3 and SHIFT+F3), and copy one set over another. Change a form's **Category**, and select the **Bill Options** icon to quickly indicate what types of documents to include on client bills. You can also sort the current list by column headers; to reset the current list view (unsort via column headers), exit and reopen Pricing Setup.

By default, all changes are saved automatically. To disregard all changes made during your current Pricing Setup session, click the arrow beside **Exit** and select **Exit without save**.

See the [2023 Drake Tax Manual](#) for more on Pricing and Form Order Setup.

Figure 3: Updated **Pricing Setup** Window

Return Type	Individual	Category	Default View	Restore	Copy Sets	Search	Bill Options	Print	Help	Exit			
Fed/State	Federal	Sets	Default View										
Number	Form Name	Description	Form Price	Item Price	Bill	Pages	Category	Sign Copy	Est Copy	Client Copy	Prep Copy	Fed Copy	State Copy
96	Form 9325	General Information for Electronic Filing	\$0.00		<input checked="" type="checkbox"/>	1	EF	0	0	1	1	0	0
499	EF Notice - FBAR	E-file Notification for FBAR	\$0.00		<input checked="" type="checkbox"/>	1	EF	0	0	1	1	0	0
188	EF PDF	Federal PDF Attachments	\$0.00		<input checked="" type="checkbox"/>	1	EF	0	0	1	1	0	0
97	Form 1040-X	Amended Income Tax Return	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
1	Form 1040	U.S. Individual Income Tax Return	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
2	Form 1040-SR	U.S. Tax Return for Seniors, page 1	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
3	Form 1040-SR pg 2	U.S. Tax Return for Seniors, page 2	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
4	Form 1040-SR pg 3	U.S. Tax Return for Seniors, page 3	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
5	Form 1040-SR pg 4	U.S. Tax Return for Seniors, page 4	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
605	Form 1040-SS	U.S. Self-Employment Tax Return, page 1	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
606	Form 1040-SS pg 2	U.S. Self-Employment Tax Return, page 2	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
413	Form 1040-NR	U.S. Nonresident Income Tax Return	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
601	Schedule 1	Additional Income and Adjustments to Income	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
602	Schedule 2	Additional Taxes	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
603	Schedule 3	Additional Credits and Payments	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
461	Form 2210	Underpayment Penalty	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
463	Form 2210 pg 2	Underpayment Penalty - Regular Method	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
464	Form 2210 pg 3	Underpayment Penalty - Annualized Income	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
465	Form 2210F	Underpayment Penalty - Farmers and Fishermen	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
7	Schedule A	Itemized Deductions	\$0.00	\$0.00	<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
415	Schedule A - 1040-NR	Schedule A - Itemized Deductions	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
416	Schedule NEC - 1040-NR	Schedule NEC - Tax Not Connected With U.S.	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
417	Schedule OI - 1040-NR	Schedule OI - Other Information	\$0.00		<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
8	Schedule B	Interest and Ordinary Dividends	\$0.00	\$0.00	<input checked="" type="checkbox"/>	1	Forms	0	0	1	1	1	0
9	Schedule C	Profit or Loss from Business	\$0.00	\$0.00	<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0
11	Schedule D	Capital Gains and Losses	\$0.00		<input checked="" type="checkbox"/>	2	Forms	0	0	1	1	1	0

Due to several tools being combined with Pricing Setup, the following paths now redirect to the **Pricing Setup** window:

- From the Drake Tax **Home** window menu bar:
  - **Setup > Pricing**
  - **Setup > Printing > Printer Setup**
- On the View/Print mode toolbar:
  - **Setup > Form Order**
  - **Setup > Pricing**
  - **Setup > Printing > Sets**
  - **Setup > Printing > Set Form Order**
  - **Setup > Sets**

- When right-clicking a form in View/Print mode:
  - **Setup > Form Order**
  - **Setup > Pricing**
  - **Setup > Sets**



The ability to change pricing on-the-fly is still available. From View/Print mode, right-click the desired form, and choose **Setup > Form Properties**. When adjusting the **Form Price** or **Item Price**, decide whether you want the updated price to **Apply to this return** only or **Apply to all returns**. **Save** when finished.

## Miscellaneous Enhancements

The below list references only a few of the many resources that have been updated for tax year 2023:

- Beginning with Drake Tax 2023, you can create custom **Summary** checklists for new clients using the same process that you do for existing and returning clients. This feature is available in all packages. To create a custom checklist for a new client, from the **Home** window of Drake Tax, go to **Last Year Data > Organizers > Summary Organizer**, and click the **Organizer for new clients** link; once you are on the **New Client Organizer Options** window, choose **Custom Editor**. See the [2023 Drake Tax Manual](#) or [Knowledge Base article “15028: Organizers – Custom Pages”](#) for more on using the Custom Editor.
- Batch-printed organizers saved to Drake Documents or Drake Portals can now be password-protected. The default password format is established in **Setup > Options > Administrative Options** tab.
- To better protect tax return preparer and taxpayer data, executable (.exe) and dynamic-link library (.dll) files can no longer be emailed using Drake Tax (**Data Entry Menu** toolbar > **Email > Add > Application Log**).

## Drake Portals



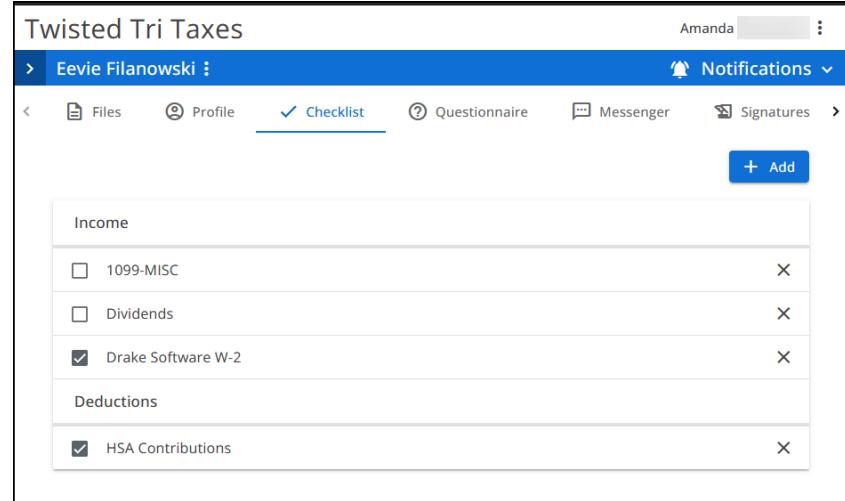
With more preparers than ever working with their clients via virtual means, Drake Portals continues to prove its value to preparers across the U.S. For this reason, the Web version of Drake Portals can now be easily accessed from the **Home** window of Drake Tax.

With Drake Software's ongoing mission to increase the efficiency and ease of tax return preparation, Drake Portals has several new features for tax year 2023.

## Collect Documents Faster

### — Checklists —

Mirroring the ability to create checklists in Drake Tax, preparers can now create checklists for clients within Drake Portals, making it clear what information the preparer needs to complete the taxpayer's return. Checklists function just like a to-do list; the preparer chooses a category, adds a description, and the item is added to the appropriate list. The client is then notified via email that they have a new checklist item, with a direct link to the **CheckList** page of their account. Clients can upload documents directly from their checklist; items are marked as complete once the client uploads a file. Uploaded checklist items are automatically sent to the client's **To Preparer > CheckList** folder on the firm's Drake Portals site.



### — Direct Requests —

To request a document from a client on-the-fly, click the three vertical dots beside the taxpayer's name, and select **Request Files**. Enter a message, telling the client what you need, and **Submit** the request. An email is sent to the client, containing a unique link that is valid for 24 hours. From this link, the client can upload the requested documents without having to log in to their portal. Received files are automatically saved in the applicable client's **To Preparer** folder.

## Export Reports and Messages

Get a comprehensive view of everything happening within your business using the reports feature. View in-depth reports on files, questionnaires, signature documents, client profiles, payments, and bills. Each category can be filtered by text, dates, and creators, as well as by actions performed. Once your report is exactly how you want it, click the three vertical dots beside **Reports** and select **Export** to automatically download a .csv file of the current report. Messages can also be searched, filtered, and exported.

## Access Additional Client and Help Resources

- Preparers now have two quick ways to view client details:

- **Profile Information** — To view basic return information, including demographic information for the taxpayer, spouse, and dependents, select the **Profile** tab within the client's folder. You can also view whether or not the taxpayer has marked the information as complete.
- **Client Information** — To see details about a client's account, click the three vertical dots beside the taxpayer's name, and select **Client Info**. A pop-up displays the taxpayer's email address, ID number (that you can mask or unmask), whether or not they activated their account, the amount of space they are using, their last login, and their taxpayer type (individual, business, etc.).
- Find the answers to your questions using the new Drake Portals Help feature. With one set of FAQs tailored to preparers and another to clients, users have access to all the information they need and nothing they don't. This Help also has a dedicated What's New page, letting users know how to take advantage of new features the moment they are released. Access FAQs from the portal login page by clicking **Help**, located in the upper-right corner, or within the portal by clicking the three vertical dots beside the preparer's or client's username.
- For clients that need an extra hand using their portal, use the new client view. To enter client view, click the three vertical dots beside the taxpayer's name and select **View as Client**. A new tab is opened, allowing you to see the client's portal in real time. You cannot edit anything within the client's portal, but it is a great way to confirm what your client can see and help them navigate their portal.
- Still need help? Contact Drake Portals support from their new direct line: (828) 349-5725.

## Create and Send Signable Documents

With Drake Portals, preparers have the freedom to add signature fields to any uploaded PDF document. This means that preparers can create their own documents (or take any existing document), save them as .pdf files, and upload them to the portal. Preparers can add up to two signees and multiple signature fields before sending the document to the client. The client can then sign and send the file back to the preparer. All signatures are legally binding and are deducted from the preparer's e-sign balance.

To create and send a signable document from your portal:

1. Choose the client to whom you wish to send the document, and select the **Signatures** tab.
2. Click **Add**.
3. Locate and open the PDF document to which to add signature fields.
4. Select or add the clients who will sign the document. Up to two signees can be added for each document. Fill out each signee's information and click **Next**.



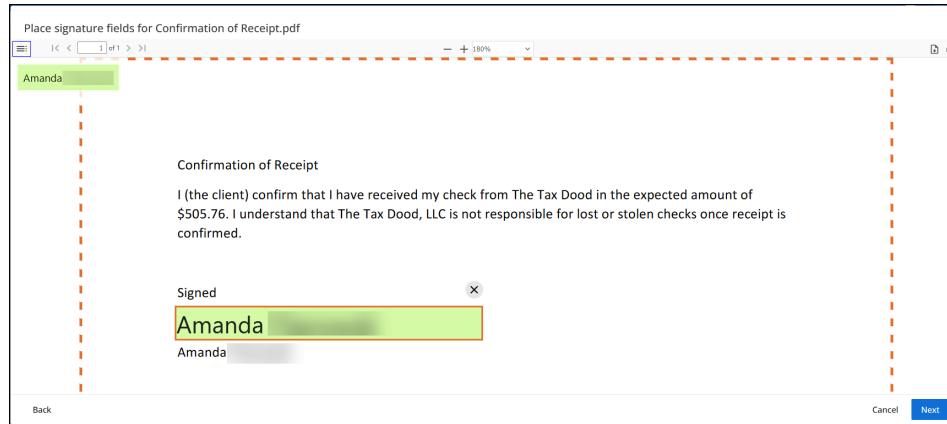

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- Previously entered client information is saved and does not have to be re-entered.
- It is important that accurate information be entered for each signee. The signee will not be able to sign documents if any information is incorrect.

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5. A PDF signature window is opened. Choose the applicable signee on the far-left and drag the signature box to the desired location on the document. Click **Next** when you are finished adding signature fields.

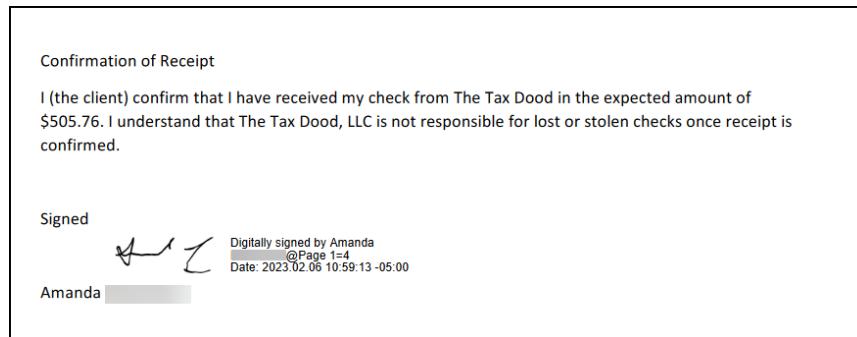
Figure 4: Adding Signature Fields to a PDF Document



6. **Send** the document to the client. Your e-sign balance is automatically adjusted.

7. An email is sent to the client, informing them that they have documents to sign. The client must verify their identity the first time they are asked to sign a document and must correctly answering several questions. Per IRS requirements, if the client does not answer three out of four questions correctly, they cannot electronically sign documents for the remainder of the calendar year. You are notified once signing is complete.

Figure 5: The Result of a Signed PDF



# Individuals (1040)

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This supplement focuses on using Drake Tax to produce 1040-series forms, as well as the supplemental forms and schedules that might be part of an individual tax return. This supplement is not intended to be a tax course; it assumes a fundamental knowledge of tax law and a familiarity with data entry. See the [2023 Drake Tax Manual](#) for the basics of using the program. (The manual is available on the installation CD and from your [User Account](#).)

## Updating a Prior-Year Return in Drake Tax

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

- (*recommended*) As a *single* return (updated one at a time) using **Last Year Data > Update Clients 2022 to 2023**
- When you open the return for the first time in the 2023 program and are prompted to update it
- (*not recommended*) With *all other* returns in the program using **Last Year Data > Update Clients 2022 to 2023**

For more details on updating prior-year returns, see the *2023 Drake Tax User's Manual*.

## Data Entry for Form 1040

Entering data to complete Form 1040 has changed little for the 2023 filing season, and most procedures remain the same for completing the 1040 and its attendant schedules and forms in Drake Tax.

## Schedules 1 – 3

Many taxpayers need only Form 1040 and no schedules for a complete return; however, for a return that is more complicated (for example, for a taxpayer claiming certain deductions or credits or one that owes additional taxes), one or more of the Form 1040 schedules will be generated and completed by Drake Tax.

Following is a brief description of the uses for the schedules.

### Schedule 1

Schedule 1, Additional Income and Adjustments to Income, reports the taxpayer's additional income (business income, farm income or loss, capital gains, unemployment compensation, etc.), and claims any adjustments for such items as student loan interest, health savings accounts, the deductible part of self-employment tax, and educator expenses not reported directly on Form 1040.

Most Schedule 1 entries are made using screens **3** (Income) and **4** (Adjustments), but data also flows to Schedule 1 from such income screens as **99G** (1099-G, Certain Government Payments), **4797**, (Sales of Assets), **E** (Rent and Royalty Income), **K1P** (Partnership K-1), **K1S** (S Corp. K-1), and **K1F** (Fiduciary K-1).

### Schedule 2

Schedule 2, Additional Taxes, reports alternative minimum tax and excess advance Premium Tax Credit repayments, self-employment tax, household employment taxes, and additional tax on IRAs or other qualified retirement plans and tax-favored accounts.

Apart from screen **5** (Taxes, Credits, and Payments), many Schedule 2 entries are made on such tax-reporting screens as **6251** (Alternative Minimum Tax), **95A** (1095-A, Marketplace Statement), and **4137** (Tax on Tips).

### Schedule 3

Schedule 3, Additional Credits and Payments, reports nonrefundable credits, such as the Foreign Tax Credit, child and dependent care expenses, retirement savings contributions, and other payments and refundable credits, such as net Premium Tax Credit, excess Social Security withheld, and federal tax on fuels.

Data is entered on such credit or tax screens as **5** (Taxes, Credits, and Payments), **1116** (Foreign Tax Credit), **DIV** (1099-DIV, Dividend Income), **INT** (1099-INT, Interest Income), **8801** (Credit for Prior-Year

AMT), **8962** (Premium Tax Credit), **8396** (Mortgage Interest Credit), **K1P** (Partnership K-1), **K1S** (S Corp. K-1), and **K1F** (Fiduciary K-1).



If there is no additional income reported on Schedule 1 but there are adjustments to income, only page 2 of Schedule 1 is produced in View/Print mode.

## Associating One Screen with Another

Drake Tax allows you to associate one screen with another, such as when an asset on one screen should be associated with a specific Schedule C. For example, to associate an asset screen to a **C** screen, complete the **For** and **Multi-form Code** fields at the top of the asset screen. From the **For** drop list, select the form to be associated with the open screen, as shown in [Figure PER-1](#).

Figure PER-1: Associating One Screen with Another

<b>Form 4562</b>	<b>For:</b> <input type="button" value="C"/>	(A, C, E, F, 2106, 4835, AUTO, 8829, K1P, or K1S)
<a href="#">Video: 4562 Import</a>	<b>Multi-form code:</b> <input type="button" value="3"/>	(1-999; "1" is assumed if left blank)
<a href="#">Video: Group Sales</a>		
<b>Description</b>	<b>Date Acquired</b>	<b>Cost</b>
DOG CRATES	03-21-2022	1500

Record 3 of 4

In the above example, the **4562** screen is to be associated with the third Schedule C (screen **C**) created in the return. Use the bottom-left “record” indicator (figure left) as a reference if you are unsure what instance of a screen to use. In the figure left, there are four total screens **C**; the third screen **C** in the program is the one that the preparer needs to tie to the Form 4562, so a **Multi-form code** of **3** is used.



For Schedule E rental properties, each property (in other words, each screen) has a separate multi-form code. The MFC number used on the asset screen (for instance, on screen **4562**) for a Schedule E should refer to the *screen* the property is listed on, not the instance of the *Schedule E*. (Up to three properties are printed on a Schedule E.)

## Taxpayer Information

Use screen **1** (Name and Address) to enter information about the taxpayer (and spouse or “qualifying person,” if appropriate) for the top section of Form 1040.

## Selecting a Filing Status

Screen: 1 Select a filing status from the **Filing status** drop list at the top of screen **1**. Press F1 in the **Filing status** field to view explanations for the available codes.

After making a selection from the **Filing status** list, make any other selections necessary to explain the client's filing status from entries on other sections of screen **1** ([Figure PER-2](#)), such as:

Figure PER-2: Supplemental Fields for Certain Filing Statuses

- **Taxpayer did not live with spouse** drop list
- **Nonresident alien** check box for nonresident alien spouse
- **MFS** check boxes for Married Filing Separately exemptions

## Qualifying Surviving Spouse (QSS)

When filing Form 1040 with a **Filing status of 5 – Qualifying Surviving Spouse (QSS)** selected on screen **1**, the name and SSN of a *qualifying* person (for instance, a dependent child) must be present in the return.

The qualifying person's SSN must be within the valid ranges of SSNs/ITINs/ATINs; that is, it:

- Must be nine numerals
- Cannot be all zeros, ones, twos, threes, fours, fives, sixes, sevens, or eights
- Cannot be the same as the taxpayer's or spouse's SSN

Qualifying persons who are *not* dependents must also be entered on screen **2**. Include their name, SSN, relationship, months in home, birth date, and, in the **Additional Information** section, mark the **Not a dependent – Taxpayer is QSS qualifier** check box.



A taxpayer can file as a Qualifying Surviving Spouse even if the child living in the home is not claimed as a dependent.

## Standard Deduction

The standard deduction for 2023 is \$13,850 for taxpayers filing as Single or Married Filing Separately, \$27,700 for taxpayers filing jointly or as Qualifying Surviving Spouse, and \$20,800 for Head of Household filers. (Additional amounts are applicable for taxpayers who are over 65 or blind.)

The data that flows to the “Standard Deduction” section of the 2023 Form 1040 comes from entries on screen **1**. Mark the **Dependent of another** check box to indicate if someone can claim the taxpayer (or the spouse of the taxpayer) as a dependent. Indicate if the taxpayer or spouse is blind. Other information on page 1 of the 1040 is completed automatically (for example, the “...born before January 2, 1959” check box for the taxpayer and spouse).



The “Spouse itemizes on a separate return or you were a dual-status alien” box in the “Standard Deduction” section of the 1040 is marked by the program if you split the return and select **Itemize** from the **Deduction Optimization** dialog box (see [“Splitting a Joint Return” on page 38](#)), or if, on screen **A**, you select **Force itemized** on a Married Filing Separately return.

## Entering Taxpayer Information

The taxpayer’s name and SSN are entered as you create the return. Other data, such as the date of birth, occupation, and contact information (phone numbers and email address) for the taxpayer and spouse is entered on screen **1**. Note that not all fields in the **Spouse** column are activated if the filing status is something other than **2 – Married Filing Jointly**. (All active fields should be completed to the best of the preparer’s ability.)

e-File specifications allow no more than 35 characters of a taxpayer’s name to be transmitted on a tax return. In Drake Tax, names with more than 35 characters (taxpayer and spouse names *combined*) are automatically shortened, and a Return Note is generated. (Names shortened using this method still appear in full on the forms themselves; the shortened version is sent in the e-file transmission.) If a name is too long to be shortened automatically, an EF Message directs you to shorten the name manually on screen **1**. Press F1 in the taxpayer’s **First name** field on screen **1** for further instructions.



- If the taxpayer or spouse was a victim of identity theft, enter their IRS-assigned PIN in the **Identity Protection PIN** fields on the **PIN** screen.
- If a dependent of the taxpayer has received an Identity Protection PIN, enter it in the **IP PIN** box on screen **2**.
- Complete Form 14039, Identity Theft Affidavit, using screen **1403** if your client was a victim, or is a potential victim, of identity theft. See the screen help for screen **1403** (press **CTRL+ALT+?**, select **Screen Help** from the right-click menu, or click **Help** from the screen **1403** toolbar) for instructions on submitting Form 14039.

## Print Taxpayer's Phone and Email

There are optional lines in the signature space of Form 1040 for the taxpayer's and spouse's telephone numbers and email addresses. To have this information printed or omitted "globally" (for all Forms 1040 you prepare), from the menu bar of the **Home** window of Drake Tax, go to **Setup > Options > Optional Items on Return** tab, and mark or clear the **Taxpayer phone number** and **Taxpayer email address** check boxes to automatically include or omit this information for all 1040 returns.

To include or omit the phone number on a per-return basis, open a return, go to screen **1**, and in the **Phone Number** section, make a selection from the **Print on return** override drop list. Choose which number (**Daytime**, **Evening**, or **Cell**) you want printed on that return, or select **None** to omit the phone number.

**Screen:** **PRNT** To print or omit the taxpayer's email address on a per-return basis, open the return, go to the **PRNT** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**), and from the **Print client email address on return** drop list, make a selection to override your global decision.

## Entering Residency Information

**Screen:** **1** The **Mailing Address** section of screen **1** includes fields for either domestic or foreign addresses.



To indicate a stateside military address, mark the **Stateside military address** check box on the **Mailing Address** section of screen **1**. Enter combat and special processing code information on the **MISC** screen (accessible by clicking the **Combat Zone** link on screen **1** or from the **Miscellaneous** tab of the **Data Entry Menu**).

## Required Fields

Fields that require completion before a return is eligible for e-file, such as address fields, are highlighted (by default) in blue (Figure PER-3).

Figure PER-3: Blue Denotes Required Fields

The screenshot shows the 'Mailing Address' section of screen 1. It includes fields for 'Street address', 'City', 'State', 'ZIP', 'County', 'Province or state', 'Country', and 'Postal code'. The 'Street address' and 'City' fields are highlighted in blue, while the other fields are white. A note at the bottom says '<Click to Access>'.

Reminders appear when you try to escape from a screen on which required fields have not been completed. You can set up the program to remind you every time you leave a required field blank, to remind you only once per data-entry session, or not at all. From the **Home** window menu bar, go to **Setup > Options > Data Entry** tab, and make a selection from the **Display warning for missing required field** drop list.

From the **Home** window menu bar, go to **Setup > Colors** to change the color of the required fields (**Required Fields Background**).

## State and Local Data

Make a selection from the **Resident state** drop list on screen **1** if any of the following is true:

- The resident state differs from the state in the mailing address. (Select the appropriate state code.)
- The taxpayer is a part-year resident of the state in the mailing address. (Select **PY**.)
- You do not want a state return to be calculated. (Select **0**.)

The **Resident city** drop list is activated if a city return is required. The **School district** drop list is activated when needed.



Press **CTRL+SHIFT+S** in the **Resident city** or **School district** field to search for applicable selections.

## Foreign Account Questions

The Foreign Accounts questions (Part III of Schedule B)—if, at any time during 2023, the taxpayer had financial interest in or signature authority over a financial account in a foreign country—can be answered on screen **1** (if the answer is “No”) or on screen **B3** (if the answer is “Yes”). Access screen **B3** from the **Foreign Accounts** link on screen **1** or the **Foreign** tab of the **Data Entry Menu**. If screen **B3** is activated, all fields *must* be completed.



The foreign accounts question must be answered or the return cannot be e-filed.

For more on Schedule B, Part III, and completing the **Foreign Account** screen, see [“Schedule B, Part III” on page 47](#).

# Digital Assets

This section reviews the following:

- [Basic Types of Digital Assets](#)
- [Required Digital Asset Question](#)
- [Reporting Digital Asset Transactions](#)

## Basic Types of Digital Assets

Digital assets are any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. Digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies. If a particular asset has the characteristics of a digital asset, it is treated as a digital asset for federal income tax purposes.

## Required Digital Asset Question

The digital asset question—did the taxpayer, at any time during 2023, receive, sell, exchange, gift, or otherwise dispose of any digital asset (or financial interest in any digital asset)—is answered on screen **1**. The answer is reported on page 1 of Form 1040.

In general, if the answer is **Yes**, the taxpayer has a reportable transaction for the year, which must be entered on the applicable screen. Note that the transaction may or may not be taxable, depending on circumstances.

Figure PER-4: Digital Asset Question on Screen **1**

Foreign Account and Digital Asset Questions	
If the taxpayer had any interest in or authority over any foreign account or trust, use the Foreign Accounts screen.....	<a href="#">Foreign Accounts</a>
Otherwise select this box.....	<input checked="" type="checkbox"/> Answer "No" to Sch. B, Part III questions
At any time during 2023, did the taxpayer receive (as a reward, award, or payment) or sell, exchange, give, or otherwise dispose of a digital asset (or any financial interest in a digital asset)?.....	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <a href="#">Video: Reporting Digital Assets</a>

The question, by itself, has no effect on the return; no calculations are affected regardless of the answer.



- The digital asset question *must* be answered or the return cannot be e-filed.
- The wording of the digital asset question changes often. Watch for changes in future years!

## Reporting Digital Asset Transactions

If a taxpayer disposed of any digital asset, which they held as a capital asset, through a sale, trade, exchange, payment, gift, or other transfer, answer **Yes** to the digital asset question on screen **1**. Report the digital asset using either:

- Screen (Form) **8949** to calculate the total capital gain or loss on the asset and report that gain or loss on Schedule D
- Form 709 (in the case of gifts)



Gifts of digital assets should be reported, even if under the annual gift tax exclusion amount.

If a taxpayer received any digital asset as compensation for services or disposed of any digital asset that they held for sale to customers in a trade or business, they must report the income as they would report other income of the same type (for example, as W-2 wages on Form 1040, or inventory or services on Schedule C).

## Deceased Taxpayers

If the taxpayer is deceased:

1. Enter the **Date of death** in the appropriate **Taxpayer** or **Spouse** section on screen **1**.
2. In the **In care of** field (just above the **Mailing Address** section), enter the name of the person (surviving spouse, child, legal representative, etc.) to whom all tax-related information should be addressed. (For MFJ returns, enter a name only if this person is someone *other than* the surviving spouse.)



If there is a name in the **In care of** field, all correspondence generated by the program (letters, bills, etc.) is addressed to that person.

## Foreign Addresses

Fields for adding foreign address information are included on many data entry screens ([Figure PER-5 on page 34](#)). These fields are locked to keep address data from being entered accidentally.

Click any one of the foreign address fields to unlock all foreign address fields throughout the return. (Alternately, right-click the screen, and select **Enable Foreign Only Address Fields**.) Close the return and reopen it to re-engage the lock for unused screens.

Figure PER-5: **Foreign Only** Section is Available on Several Screens in Drake Tax

The screenshot shows the 'Mailing Address' screen in Drake Tax. At the top, there are fields for 'Street' (13 PLAZA MAYOR) and 'City' (SALAMANCA). Below these are dropdowns for 'State' and 'ZIP'. The 'U.S. ONLY' section is visible. In the 'Foreign ONLY' section, there are fields for 'Province/state' (CASTILLA-LEON), 'Country' (SPAIN), and 'Postal code' (37006). A note 'Spain' is visible below the postal code field.

To use the foreign address fields, enter the **Street address** and **City** in the appropriate fields (the same fields used for entering U.S. addresses), then the name of the foreign **Province/state**. Select a foreign **Country** from the drop list, and then enter the **Postal code**, if appropriate.

## State-Issued Identification

**Screen:** **IDS** In order for a return to be eligible for e-file (federal or state), taxpayers (and spouses, if appropriate) must supply a driver's license or other form of state-issued identification, affirm that they do not have a state-issued photo ID, or simply fail (or decline) to supply the preparer with such an ID.

In Drake Tax, enter this data on the **IDS** screen, available from the **Electronic Filing and Banking** section of the **General** tab of the **Data Entry Menu**.

Figure PER-6: **IDS** Screen is Required to e-File Returns

The screenshot shows the 'Why is Driver's License Information Required?' screen. It has a title 'Taxpayer's Driver's License or Other State-Issued Photo ID'. Below this are fields for 'Type' (1), 'Number' (123456789123456789), 'State' (NC), 'Issue date' (01-01-2020), and 'Expiration date' (01-01-2030). Below these fields are three notes: 'If no DAY is provided, use "01."', 'If the state ID does not expire, enter "NONEPR" for the "Expiration date."', and 'If the state ID does not expire, enter "NONEPR" for the "Expiration date."'

The **IDS** screen has fields and drop lists for recording forms of identification (Figure PER-6). The upper sections of the screen have fields and drop lists for entering the most common forms of identification—**Driver's License or Other State-Issued Photo ID**—while the middle section of the screen (**Other Identification**) is for entering other forms of ID, such as a military ID, passport, green card, or visa.

The lower section includes four check boxes, the top two stating that the taxpayer (and spouse, if appropriate) does not have a driver's license or other form of state-issued ID; the other two boxes

state that the taxpayer (and spouse, if appropriate) failed to supply a driver's license or other form of state-issued ID.



No entry is required on the **IDS** screen for children younger than age 15 who file a return.

If you offer your clients bank products, the ID information entered on the **IDS** screen is used automatically during the bank product transmission and does not have to be re-entered on the appropriate bank screen.

If the taxpayer has no state-issued photo ID, or declines to produce it, they are not eligible for a bank product. The ID information also flows to any state returns that require it.

## Dependent Information

**Screen:** Use screen **2**, accessible from the **General** tab of the **Data Entry Menu**, to complete the "Dependents" section of Form 1040.

Figure PER-7: The Number of Active **Dependents** Screens is Noted



Use a separate screen **2** for each dependent, pressing PAGE DOWN to open a new screen. The number of active **Dependents** screens is shown on the **Data Entry Menu** (Figure PER-7).

Basic dependent information must be entered on the **Dependent** tab of screen **2**. The calculated age of the dependent is displayed once the **Date of birth** is entered (figure right).

Months in home	Date of birth
12	10-10-2020
Age: 3 (as of 12/31/2023)	



Grid data entry can be useful and time-saving when it comes to entering dependent information. To switch to grid data entry mode, press F3. Note that preparers should always review the complete, detailed screen, as there are certain options not available via grid data entry.

## Dependent Last Names

By default, the primary taxpayer's last name is used for all dependents. Complete the **Last name** field on screen **2** only if the dependent's last name is *different* from that of the primary taxpayer.

## Dependent ID Numbers

An SSN, ITIN, or ATIN must be entered for each dependent or the return cannot be e-filed.



- If an ITIN is used as the ID number, the child does *not* qualify for EIC, even if otherwise eligible.
- No credit will be allowed to a taxpayer with respect to any qualifying child unless the taxpayer provides the child's SSN.

## Deceased Child

If a child dies before receiving a Social Security Number, mark the **Dependent born and died in 2023; no SSN received** option on the appropriate **Dependents** tab. Additionally, the taxpayer must provide a valid **Deceased child document**. This document must show that the child was born alive.

In order to e-file the return, you must attach a PDF copy of the deceased child document to the return. Depending on the choice made from the **Deceased child document** drop list, the file name must be "BirthCertificate.PDF," "DeathCertificate.PDF," or "HospitalMedicalRecords.PDF." These file names are case sensitive and must be entered *exactly*.

For details on attaching PDF documents to e-filed returns, turn to ["PDF Attachments" on page 211](#).

## Dependent “Months in Home”

By default, the program calculates the return as if a dependent lived with the taxpayer for the entire year. Complete the **Months in home** field on screen **2** only if a dependent did *not* live with the taxpayer for all 12 months. (A dependent who was born or who died during the calendar year is considered to have lived in the home for 12 months.)

If **0** (zero) is selected for **Months in home** for a *son* or *daughter*, the dependent is classified as one who did not live with the taxpayer due to divorce or separation. If **0** is selected for *another type of dependent* (parent, grandchild, etc.), the program applies the “Other Dependent” classification, regardless of the relationship. To override this classification, select the applicable options in the **Additional Information** section on the **Dependents** tab.

## Claiming a Dependent (Split Returns)

*T = Taxpayer*

*S = Spouse*

*J = Joint*

If taxpayers are married and want to split the return to see if filing separately would be more beneficial than filing jointly (see [“Splitting a Joint Return” on page 38](#)), use the **TSJ** drop list in the **State-Specific Information** section of the **Dependents** tab to assign the dependent’s information to the correct person.

A **TSJ** code should also be selected if the state has a Married Filing Separately (combined) option. The program default is **T – Belongs to the Primary Taxpayer**.

## State Data for a Dependent

Select a **State** from the drop list (circled in [Figure PER-8](#)) to specify which state should receive the dependent’s data. This selection helps ensure that the dependent’s credit information flows to the correct state return. This information is necessary in some situations (for example, if the parents of the dependent are filing as MFS and reside in different states).

Figure PER-8: Select a State from the **State** Drop List



Enter a code (disabled, adopted, jailed, etc.), as applicable, in the **State codes** field. To view all state codes, click the **State codes** field and press F1. Review the information for the state and enter the appropriate term (for example, Disabled or NYCTC).

## Additional Dependent Information

The **Due Diligence** tab of screen **2** contains fields for other dependent-related data and must be completed if the taxpayer is claiming the Earned Income Credit (EIC), (Additional) Child Tax Credit ((A)CTC), or Other Dependent Credit (ODC) for the associated dependent. Information on these fields is provided elsewhere in this document:

- **Childcare Expense Information** — See [“Child and Dependent Care Credit” on page 132](#).
- **EIC Information (and related due diligence questions)** — See [“Earned Income Credit” on page 138](#).

It could be necessary to override or further clarify dependent information entered on screen **2**—for example, if a child is older than 18, disabled, not a dependent, etc. Use the **Additional Information** section of the **Dependent** tab for this kind of data.

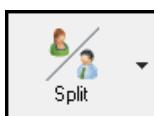


If the taxpayer's dependent received an Identity Protection PIN, enter it in the **IP PIN** box on the **Dependent** tab.

## Splitting a Joint Return

When you split a joint return in Drake Tax, the program calculates three returns: one for Married Filing Jointly (MFJ), and two for Married Filing Separately (MFS).

Before splitting a joint return, ensure that data on all screens clearly applies to either the taxpayer (T) or spouse (S) using the **TSJ** drop lists, and make sure **Ready for EF** is not marked on the **EF** screen. If this box is marked, all three returns will be marked eligible for e-file.



To split a joint return:

1. Open the return.
2. Choose one of the following options:
  - To compare returns for two individuals who lived together for the entire year, click the **Split** button or press **CTRL+S**.
  - To compare returns for two individuals who did *not* live together for the entire year, click the down arrow next to the **Split** button and select a category of MFS filing status. Results are displayed in the **Return Selector**.



At this point, if there is a Schedule A on the return and you have not specified on screen **A** whether to force itemized or standard deduction, you are prompted to select **Itemize**, **Standard**, or **Optimize** before proceeding. If you select **Optimize**, the program determines which is the better treatment of the Schedule A deductions.

3. Mark the check boxes to the left of the returns and click **Print**, **View**, or **Save**, as applicable. (To see an MFJ/MFS report, see ["About the MFJ/MFS Report,"](#) later on this page.) You must **Save** a split return to open or edit the return later.
4. Click **Exit**.

## — Unsplitting a Return —

To unsplit a return (merge two split returns that originate from the same return):

1. Open the primary taxpayer's return.
2. On the **Select Client Return** dialog box, choose **Individual (MFJ)**. The **Data Entry Menu** of the Married Filing Jointly return is opened.
3. **Split** the return once more. On the **Return Selector**, **Exit** the return without saving your changes. Both split returns are merged back into a single Married Filing Jointly return; from this point forward, neither Married Filing Separately return can be accessed unless you resplit the return.

## — About the MFJ/MFS Report —

To view the MFJ/MFS report, click **MFJ/MFS Report** on the **Return Selector** window. The Filing Status Optimization Report is displayed in View/Print mode as "Wks MFS Comp" (and "OH\_COMP" for Ohio returns). The report compares the taxpayer's and spouse's status if filing joint, combined, or separate returns, and to show the net effect of filing separate returns.



The state report feature is available for Ohio returns only.

The program saves the MFS data shown in the reports only if you save the split returns. If you are not planning to save the MFS versions of the returns but want to show the reports to your client later, print the reports now for your client's records. If the MFS versions are saved, the completed "Wks MFS Comp" and "OH\_COMP" reports can be viewed only in the joint return.

## Personal Service Income

Use the **W2** (Wages), **99M** (1099-MISC, Miscellaneous Income), and **99N** (1099-NEC, Nonemployee Compensation) screens, accessible from the **General** tab of the **Data Entry Menu**, to enter personal service income data from a taxpayer's W-2, 1099-MISC, and 1099-NEC forms, respectively.



Click the **Household Employee** link on screen **3** to open the **Household Employee Wages** screen for wages paid to a household employee. See ["Wages for Household Employees" on page 45](#) for more.

## W-2 Wages

**Screen:** The **W2** screen is designed to correspond to IRS Form W-2, Wage and Tax Statement. Data entered here must match the taxpayer's W-2 forms. The following fields can be completed automatically by the program:

- **Employer/Employee Names and Addresses** — If the employer's EIN is in your Drake Tax database, the employer's information is completed automatically once you enter the EIN. The employee's information (for taxpayer or spouse) is completed automatically once **T** or **S** is selected from the **TS** drop list at the top of the **W2** screen. Nothing has to be typed into these fields unless the information differs from what was previously entered in the program.
- **Wages and Withholding** — When wages are entered in box 1, boxes 3 – 6 are completed automatically. These amounts should match those on the taxpayer's W-2.



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If, after contacting (or attempting to contact) the employer, you suspect fraud, immediately contact the nearest IRS Criminal Investigation office, or file Form 3949-A, available from the [IRS website](#).

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## Links

Links are provided from the **W2** screen to screens **2441** (for entering Child and Dependent Care Expenses), **8880** (for calculating the Qualified Retirement Savings Contributions Credit), **8889** (for contributions to HSAs), **SEHI** (for calculating the self-employed health insurance deduction), and **QSE** (for data on a Qualified Small Employer Health Reimbursement Arrangements).

## Foreign Employers

To indicate a foreign employer on screen **W2**, type the street address into the **Street** field and the city into the **City** field of the **Employer information** section. In the **Foreign ONLY** section, enter the **Province/state**, select a country from the **Country** drop list, and, if relevant, enter a **Postal code** ([Figure PER-9 on page 41](#)).

Figure PER-9: Mailing Address for Foreign Employers on Screen **W2**

**Employer Information**

EIN..... 1

Name..... PEPE'S POWERFUL PERFUMES

Name cont.....

Street..... 12345 RUE DE DAY

City..... PARIS

**U.S.ONLY** State ZIP

**Foreign ONLY** Province/state Country Postal code

ILE-DE-FRANCE FR 75002

**Screen:** If no W-2 was issued by the foreign employer, open screen **FEC** (Foreign Employer Compensation)—accessible from the **Income** tab of the **Data Entry Menu**—to enter employee, employer, and income information.



For information on the foreign income exclusion (Form 2555), see ["Excluding Foreign Income" on page 107](#).

## Statutory Employees

Because all statutory employees must file Schedule C for expenses related to W-2 income, the program creates a Schedule C for a statutory employee. To indicate a statutory employee and generate Schedule C:

1. Open a **W2** screen for the employee and mark **Statutory employee** on line 13.
2. From the **Special tax treatment** drop list at the top of the screen, select the associated Schedule C. (For instance, if the return includes more than one Schedule C, select the appropriate screen **C** "record" (screen instance) for the statutory employee. The record number is found in the bottom-left of the screen. If the third screen **C** in the program is the one that the preparer needs to tie to the W-2, a **Special tax treatment** code of **3** (for Schedule C #3) would be selected on screen **W2**. For additional information on linking screens, see ["Associating One Screen with Another" on page 27](#).)

For statutory employees, the **Wages, tips** amount on screen **W2** flows to the "Gross receipts or sales" line of Schedule C.

## Clergy

Some members of the clergy receive Form W-2 but do not have Social Security or Medicare taxes withheld from their wages; they report and pay their Social Security and Medicare taxes by filing Schedule SE. Report their wages on screen **W2**.

To indicate wages for a member of the clergy, from the **Special tax treatment** drop list, select **C** or **P**:

- Select **C** if the church is electing to treat the minister as a regular employee, is withholding Social Security, and is assisting the minister with the payment of their Social Security and Medicare taxes.
- Select **P** if the minister is paying their own Social Security and Medicare taxes.

Also see [“Clergy Expenses” on page 109](#) and [“Income from Church” on page 110](#). For more information, see [IRS Publication 517](#).

## Corrected or Altered W-2

Near the bottom of the **W2** screen are check boxes to indicate that a W-2 was altered or handwritten (nonstandard), or corrected. Select the applicable box for a W-2 that has been changed.

## Do Not Update

The **Do not update** check box affects next year's tax return. If you mark this box, when you update your tax returns to Drake Tax 2024, the employer's information on the applicable 2023 **W2** screen will *not* be carried forward to the client's 2024 return.

## Agent for Employer

If the taxpayer's Form W-2 was prepared by an agent working for the employer, mark the **Agent for Employer** check box on screen **W2**.



If the **Agent for Employer** box is marked, the **EIN** entered in the **Employer Information** section of screen **W2** should be the agent's EIN, *not* the employer's. For more information, see “Agent Reporting” in the [IRS General Instructions for Forms W-2 and W-3](#).

## ITIN on Screen 1

If either the taxpayer or the spouse has an ITIN entered on screen **1**, the taxpayer's ITIN from Form W-2 **must** be entered in the field at the bottom of **all W2** screens for the taxpayer **and** the spouse. The program does not automatically use the ITIN entered on screen **1**; a return with an ITIN cannot be e-filed unless this field on all **W2** screens is completed.

## W-2 Wages Verification

(*optional*) Verification fields (activated by marking the check box **Activate W-2 wage and withholding verification fields** from **Setup > Options > Data Entry** tab) help ensure that wage and withholding amounts are correct by requiring federal and state wage and withholding amounts be entered again at the bottom of screen **W2** ([Figure PER-10](#)).

Figure PER-10: Wages and Withholding Verification on Screen **W2**

Wages and Withholding Verification					
To ensure the accuracy of wages and withholding amounts, re-enter the amounts from boxes 1, 2, 16, and 17 of the client's W-2.					
<b>Federal</b> <b>1</b> Wages, tips	<b>2</b> Federal tax w/h	<b>State 1</b> <b>16</b> ST wage	<b>17</b> ST tax	<b>State 2</b> (If applicable) <b>16</b> ST wage	<b>17</b> ST tax
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

An EF Message is generated if a verification amount does not match the corresponding amount entered. Amounts must be corrected before the return can be e-filed.

## Substitute W-2, W-2c, or 1099-R

**Screen:** **4852** Form 4852 serves as a substitute for Form W-2, Form W-2c, or Form 1099-R when a taxpayer either did not receive one of these forms or an employer issued an incorrect one. Form 4852 is not generally filed unless the missing (or corrected) form is not received with sufficient time to file the tax return timely. Use screen **4852**, accessible from the **Other Forms** tab, to complete Form 4852.



The generated Form 4852 uses data entered on the corresponding **W2** or **1099** screen (for Form 1099-R).

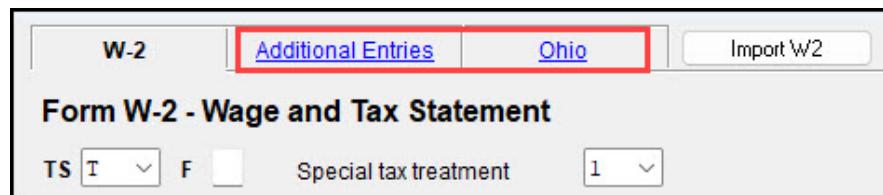
## W2 Screen Tabs

Note the tabs across the top of screen **W2**.

### Additional Entries Tab

If the taxpayer has W-2 information from more than four states, click the **Additional Entries** tab at the top of the **W2** screen ([Figure PER-11](#)) to access four more lines of data entry fields for boxes 12 and 14, and 10 more lines of data entry fields for box 15 of Form W-2. There are also four lines of **Ohio School Districts** fields and a **Miscellaneous note** field, used for entering extraneous data. This field is for the preparer's convenience only; data entered in the **Miscellaneous note** field does not flow to the return.

Figure PER-11: **Additional Entries** and **Ohio** Tabs on Screen **W2**



If the W-2 data entered is from a U.S. territory W-2 (other than Puerto Rico), select the appropriate **W-2 for U.S. territories** option on the **Additional Entries** tab. For Forms W-2PR, click the **W-2PR** link. (Screen **W2PR** is also accessible from the **Miscellaneous** tab of the **Data Entry Menu**.) Do *not* enter data from Form W-2PR on screen **W2**.

### Ohio Tab

The **Ohio** tab allows you to enter dates of employment for Ohio employees to correspond with box 15 on the **W-2** tab or the **Additional Entries** tab of the screen.

### W-2 Import

If your client is an employee of a business that uses such W-2 management companies as ADP, Equifax, BenefitMall, Gusto, and Paycor, you can download that client's W-2 information directly into Drake Tax. Visit your User Account ([Support.DrakeSoftware.com > Purchasing > W-2 Imports](#)) for information on purchasing W-2 downloads and a list of companies that supply employee W-2s using this service.

To import W-2 information:

1. Open the client's **W2** screen in Drake Tax.
2. At the top of the screen, click **Import W2**.
3. Follow the on-screen directions.

For more information, sign in to your User Account and click **Purchasing > W-2 Imports**.



Purchase W-2 downloads in blocks of 15 (\$25 per block, plus tax). Each instance of a successfully downloaded W-2 counts as one against your total (even if the same W-2 is downloaded twice).

## Wages for Household Employees

**Screen:** Wages the taxpayer received as a household employee are entered on the **Household Employee Wages** screen. Click the **Household Employee** link on screen **3**, and enter the employer's name and address (required), and, in the **Compensation** field, enter the wages the taxpayer received from the employer.



Household employees include housekeepers, maids, babysitters, gardeners, and others who work in or around a private residence as an employee.

Repairmen, plumbers, contractors, and other business people who provide their services as independent contractors are not household employees.

If the taxpayer worked for more than one employer, press PAGE DOWN to open a new **Household Employee Wages** screen. Totals flow to the "Household employee wages not reported on Form(s) W-2" line of Form 1040.

## Passive and Investment Income

This section covers income from interest and dividends from both domestic and foreign sources. For information on entering rental income data in Drake Tax, see "[Supplemental Income](#)" on page [83](#). For information on entering foreign earned income, see "[Foreign Earned Income](#)" on page [107](#).



On the **DOCS** screen—accessible from the **Miscellaneous** tab of the **Data Entry Menu**—are links to screens in Drake Tax and to Knowledge Base articles to help you find where data from certain seldom-used 1095, 1098, and 1099 forms is entered.

# Interest and Dividends

**Screens:** The **INT** and **DIV** screens (accessible from the **General** tab of the **Data Entry Menu**) correspond to the 1099-INT and 1099-DIV forms, respectively. Data from the **INT** and **DIV** screens flows primarily to Schedule B, Interest and Ordinary Dividends, and, when applicable, to Form 1116, Foreign Tax Credit.

## Income Less than \$1,500

**Screen:** In general, no Schedule B is required if taxable interest or ordinary dividend income does not exceed \$1,500; instead, enter amounts directly on screen **3** ([Figure PER-12](#)).

Figure PER-12: Interest and Dividend Fields on Screen **3**

Description	Taxpayer	Spouse
1 Other income reported on line 1 (NOT W-2 wages)..... <small>Foreign Employer Compensation      Household Employee</small>	+/-	+/-
1d Medicaid waiver payments not on W-2.....		
1h Excess elective deferral.....		
2a Tax-exempt interest (if Sch. B is required, use screens INT and DIV).....	+/-	+/-
2b Taxable interest (if Sch. B is required, use screen INT).....	INT	+/-
3a Qualified dividends (if Sch. B is required, use screen DIV).....	+/-	+/-
3b Ordinary dividends (if Sch. B is required, use screen DIV).....	DIV	+/-
4a IRA distributions received (if no 1099 was received).....	+/-	+/-
4b Taxable portion of IRA distributions above..... <input type="checkbox"/> Early distribution, calculate penalty	+/-	+/-

The screen **3** amounts are calculated, and the results flow to Form 1040 (lines 2a – 3b). (See also worksheet “Wks EIC Investment Limit” in View/Print mode.) Any interest or dividend income entered on the **INT** or **DIV** screens is *combined with* the screen **3** amounts when the return is calculated.



Do not duplicate entries on screens **3**, **INT**, or **DIV**.

## — Tax-Exempt Interest —

Line 2a of screen **3** is an adjustment field. Any amount entered there is combined with tax-exempt interest entered on other screens—such as the **Exempt-interest dividends** line of the **DIV** screen, the **Tax-exempt interest** line of screen **INT**, and the **Tax-exempt income nondeductible expenses** field on the **1065 K1 12-20** tab of screen **K1P**.

Tax-exempt interest can also be entered on screens **K1S**, **K1F**, and **OID**.

## Income Exceeding \$1,500

**Screens:** Use the **INT** and **DIV** screens to report interest and dividend income that exceeds \$1,500. Amounts are generated for Schedule B and flow to Form 1040.



- Note the **Seller-financed mortgage** check box located at the top of screen **INT**. If the interest income reported on this **INT** screen is from a seller-financed mortgage, mark this check box and enter the payer's address information. **Payer Information** fields for seller-financed mortgages are also included on the **DIV** screen.
- The **FATCA** check boxes on screens **1099**, **DIV**, and **INT** allow data entered on those screens to flow to the FinCEN report. For information on the **FATCA** check boxes, see ["FATCA Filing Requirements" on page 52](#).

## Schedule B, Part III

**Screen:** Some taxpayers with bank or other financial accounts in foreign countries must file Schedule B, regardless of the income amount.

This foreign account data is reported on the **B3** screen—that is, the **Foreign Accounts Questions** screen ([Figure PER-13](#))—accessible through the **Foreign Accounts** link on screens **1**, **INT**, and **DIV**, or from the **Foreign** tab of the **Data Entry Menu**.

Figure PER-13: The Foreign Account Questions

**Foreign Account Questions for Schedule B**

**Schedule B - Foreign Accounts**

**7a** At any time during 2023, did the taxpayer have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country?  Y

If "Yes," is the taxpayer required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority?  Who Must File  Y

**7b** If "Yes," (taxpayer is required to file FBAR) select the foreign countries:

PL				

**8** During 2023, did the taxpayer receive a distribution from or was the grantor of, or transferor to, a foreign trust?  N



- You *must* answer the foreign account questions for every taxpayer.
- If the answer is **Yes** to the foreign accounts question on screen **1**, all questions on the **Foreign Accounts Questions** screen must be answered; otherwise, the program generates an EF Message, and the return cannot be e-filed.
- If your client does not have to file an FBAR, Report of Foreign Bank and Financial Accounts, but *does* have a foreign account or trust affiliations, open the **Foreign Accounts Questions** screen and select **No** for the second question on line **7a** and do *not* make a selection from the **7b** drop lists. (For information on who must file an FBAR, click the **Who Must File** link.)
- For taxpayers who file an FBAR and had interest in accounts in more than one country or distributions from trusts in more than one foreign trust, select the countries from the drop lists in **7b**.
- To e-file an FBAR through Drake Tax, complete screens **FRGN** and **114** (accessible from the **Foreign** tab of the **Data Entry Menu**). The FBAR can also be filed through the [Financial Crimes Enforcement Network's BSA e-Filing System's website](#). (Click the **BSA e-Filing System** link on screen **114**.)

## State-Specific Information

**Screens:**  
**INT, DIV**

The **State-specific information** section of the **INT** screen ([Figure PER-14](#)) has a **Bank interest** drop list for taxpayers in Maine, Massachusetts, Oklahoma, or Tennessee, a field for entering **IA taxable interest income**, and various selections for an **IL Schedule M**. The **State-specific information** section on screen **DIV** has fields for filers from Iowa, Illinois, and Tennessee only.

Figure PER-14: State-Specific Fields on Screen **INT**



Some state returns require a Limited Liability Company number. Enter that number in the **LLC#** field on screen **INT** or **DIV**, as applicable.

## Form 1099-MISC

**Screen:** **99M** Use screen **99M** (available from the **General** tab of the **Data Entry Menu**) to enter data from Form 1099-MISC. Select from the **TS** drop list at the top of the **99M** screen to whom (taxpayer or spouse) this 1099 information belongs. To associate the **99M** information with a specific line or form within the return, make a selection from the **For** drop list. If associating the 1099-MISC information with one of multiple forms, enter a **Multi-form code**. (See [“Associating One Screen with Another” on page 27](#) for more information on linking screens.)

### 8919 “Reason” Check Box

If **8919** is selected from the **For** drop list at the top of screen **99M**, select the applicable reason code from the **Reason** drop list (located at the bottom of the **99M** screen) to explain why, based on the services performed for the firm, this form is being filed.

## Form 1099-NEC

**Screen:** **99N** Use the client’s Form 1099-NEC, Nonemployee Compensation, to complete screen **99N** (available by clicking the **1099-NEC** link at the top of screen **99M** or from the **General** tab of the **Data Entry Menu**).

Any fees, commissions, prizes, or awards for services performed as a nonemployee, or other forms of compensation for services performed for the payer’s trade or business, are reported in the **Nonemployee compensation** field of screen **99N**. Be sure to also report **Federal tax withheld**, as well as and state and local tax (withheld) at the bottom of screen **99N**.

If the taxpayer received Form 1099-NEC, it is because the payer did not consider the taxpayer an employee and hence did not withhold income tax or Social Security and Medicare taxes. In this case, enter income on screen **99N** or on the screen applicable to the form or schedule the income should be reported on.

Since Form 1099-NEC can be used to report income from a variety of sources, the preparer must indicate on which form or schedule the income should be reported. From the **For** drop list of screen **99N**, select whether you want the income to flow to:

- Schedule 1, line 8, “Other income”
- Schedule C, Profit or Loss from Business (default selection)
- Schedule F, Profit or Loss From Farming
- Form 8919, Uncollected Social Security and Medicare Tax on Wages

For the data to flow from screen **99N** to the form or schedule, the screen for that form or schedule must be completed *before* the income will flow there. The default location for the income is Schedule C. If there is more than one schedule—for instance, two or more Schedules C—use the **Multi-form code** box to designate which Schedule C should receive the income; otherwise, the **99N** data flows to the Schedule C for the first screen **C** created.

No Form 1099-NEC is created for the data entered on screen **99N**.



If the taxpayer believes Form 1099-NEC is incorrect or has been issued in error, the taxpayer should contact the payer and file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, separate from their tax return. Income reported on the incorrect 1099-NEC should be reported on Form 8919 (screen **8919**), Uncollected Social Security and Medicare Tax on Wages, instead of screen **99N**, where the program will compute and report the correct amount of Social Security and Medicare tax to be paid. Income entered on screen **8919** flows to the "Wages from Form 8919, line 6" line of Form 1040.

## Form 1099-OID

**Screen:** Enter interest income from Form 1099-OID, Original Issue Discount, on screen **OID**, available from the **Income** tab of the **Data Entry Menu**.

The screen resembles the actual form, with fields for entering all information that appears on Form 1099-OID.



- In the event some of the OID interest is nontaxable, enter this amount in the **Nontaxable OID interest** field in the lower-left side of the **OID** screen. An entry in this field adjusts line 2b, "Taxable interest," on Form 1040. To find out what part, if any, is nontaxable, click the link to the IRS **Publication 1212**.
- The fields in the **State-specific information** section are for Iowa and Illinois filers only. The **LLC#** is for any state that requires this information.

## Foreign Interest and Dividends

**Screens:** Report interest and dividend income from foreign accounts and trusts on the **INT** and **DIV** screens. As applicable, this data flows to Form 1116, Foreign Tax Credit. Note that information specific to Form 1116 is entered in a separate section. (See [Figure PER-15 on page 51](#).)

## Foreign Tax Credit Data

Use the **Form 1116/FTC Information** section of the **INT** or **DIV** screens to report any interest and dividend income from foreign accounts and trusts. [Figure PER-15](#) shows this section as it appears on the **DIV** screen.

Figure PER-15: **Form 1116** Section of **DIV** Screen

The screenshot shows a section of a software interface titled "Form 1116 / FTC Information". It contains the following fields:

- Date paid or accrued.....  Accrued
- FTC
- 1116 NOT required

If data is present on line 7, **Foreign tax paid**, of the **DIV** or **INT** screen and the **Form 1116/FTC Information** section is complete, Form 1116 is generated automatically. In order to calculate the appropriate credit amount, data must also be entered in any of the below fields (as applicable):

- **Foreign interest** on screen **INT**
- The **Foreign Amount** or **Foreign Percent** column on screen **DIV** for:
  - **Ordinary dividends**
  - **Qualified dividends**
  - **Total capital gain distribution**

All entries on screens **INT** and **DIV** are classified as passive category income on Form 1116.

## Associating Data with the **1116** Screen

**Screens:** Because the **INT** and **DIV** screens include the most commonly used Form 1116 fields, and because Form 1116 is generated if these fields contain data, it might not be necessary to enter anything onto screen **1116**. If, however, a return has a less-common foreign income factor, such as a carryover, you must enter that data on screen **1116**.

You can associate the **DIV** and **INT** screens with an **1116** screen so that the generated Form 1116 incorporates the necessary data from *all* applicable screens.

To associate the Foreign Tax Credit information in a **DIV** or **INT** screen to an **1116** screen:

1. Enter all necessary data and complete the **Form 1116/FTC Information** section of the **DIV** or **INT** screen.



Data entered here should *not* be reentered on the **1116** screen or the program combines the two amounts and generates the total on the return.

2. Enter a number in the **FTC** field of this section.
3. Open the **1116** screen (accessed from the first **Credits** tab of the **Data Entry Menu**) to be associated with the **DIV** or **INT** screen.

4. Type the same FTC number into the **FTC** field as on **DIV** or **INT** screen ([Figure PER-16](#)).

Figure PER-16: Associating 1116 Information on Screens **1116** and **DIV**

The program uses this FTC number to associate the **1116** screen with the other screens and calculate the correct information for Form 1116.

## Suppressing Form 1116

By default, Form 1116 is generated with the return if data is entered for **Foreign tax paid** and the **Form 1116/FTC Information** section is completed. If these fields include data but 1) Form 1116 is not required, and 2) the taxpayer is making the election to *not* file Form 1116 and still claim the credit, select **1116 NOT required**. For more information on making this election, refer to the [Form 1116 instructions](#).

For more on Form 1116 in Drake Tax, see ["Foreign Tax Credit" on page 131](#).



Marking the **1116 NOT required** check box suppresses the Form 1116 in its entirety (in other words, for all income items entered on screens **DIV** and **INT**).

## FATCA Filing Requirements

**Screens:** **1099**, **DIV**, **INT** Drake Tax has included **FATCA** check boxes on screens **1099**, **DIV**, and **INT**. Mark these boxes if the payer is filing this Form 1099 to satisfy its Chapter 4 account reporting requirement. The recipient also might have a filing requirement. For further information, see the Form 8938 IRS Instructions.

The Foreign Account Tax Compliance Act (FATCA) helps combat tax evasion by U.S. persons who have financial assets offshore. Under FATCA, certain U.S. taxpayers holding financial assets outside the United States must report those assets to the IRS on Form 8938, Statement of Specified Foreign Financial Assets. This FATCA requirement is in addition to the long-standing requirement to report foreign financial accounts on FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR).

There are *serious* penalties for not reporting these financial assets. For more information, see [irs.gov/businesses/corporations/foreign-account-tax-compliance-act-fatca](https://irs.gov/businesses/corporations/foreign-account-tax-compliance-act-fatca)

## Taxable Refunds



No entries are required on screen **99G** if the return was prepared in Drake Tax 2022.

**Screen:** **99G** *(new Drake Tax returns only)* Enter the amount of **State/local tax refunds/credits** for the current year on line 2 of the **99G** screen (Form 1099-G, Certain Government Payments). Complete the fields in the **Additional Box 2 Information** section at the bottom of the screen to have the program compute the taxable state refund. Marking either the **On 2022 return, took standard deduction** or **On 2022 return, itemized but claimed sales tax rather than income tax** box (just beneath line 2 on the screen) prevents data from flowing to any applicable screen, worksheet, or form because none of the state refund is taxable.

Taxable refund amounts flow to the “Taxable refunds, credits, or offsets of state and local income taxes” line of Schedule 1 (Part I, line 1), then to the “Other income” line (line 8) of federal Form 1040. Because the amount shown on this line can be affected by limitations computed from the Drake Tax worksheets, the program allows you to override these amounts.

**Screen:** **3** To override the taxable refund amount shown on the 1040, enter the updated amounts in the corresponding **Taxable refunds** fields on the **Schedule 1 - Part I - Additional Income** section of screen **3**.



- A flagged **Taxable refunds** field on screen **3** indicates that the displayed amount was brought forward from a prior-year return. To clear the flag, press F4 (if the amount is correct) or enter a new amount.
- Screen **99G** is also called the **Government Payments** screen. Unemployment compensation is entered on this screen and flows to the “Unemployment compensation” line (line 7) of Schedule 1.

## Form 1099-G Data Flow

The **For** drop list (located in the center-right section of the screen **99G**) allows you to select where in the return the 1099-G information entered in fields **6 - 9** will flow: Schedule 1, line 8; Schedule C; Schedule F; or Form 4835.

The **MFC** (multi-form code) box allows you to associate one screen with another, such as when one 1099-G should be associated with a particular schedule or form. For example, to associate a **99G** screen with the second **C** screen created, select **C** from the **For** drop list, and in the **MFC** box, enter 2.

## Alimony Received

If the amount of alimony received is required to be included in the taxpayer's income, enter it in the **Schedule 1 – Part I – Additional Income** section of screen **3** in the **Amount of Alimony received** field.

If the divorce or separation agreement occurred after December 31, 2018, and a state requires the alimony amount, enter it and the **Divorce date** in the appropriate fields. The amount entered is ignored by the federal return but flows to the state return.

For information on entering alimony paid, see ["Alimony Paid" on page 114](#).

## Self-Employment Income (Schedule C)

**Screen:** **C** Screen **C** (Self-Employed Income) covers Schedule C, Profit or Loss from Business (Sole Proprietorship). Access screen **C** from the **Income** tab of the **Data Entry Menu**. Several screens in Drake Tax (such as the **99M**, **AUTO**, and **4562** screens) can be associated with a Schedule C using the **For** and **Multi-form code** boxes of those screens. (See ["Associating One Screen with Another" on page 27](#) for more information on linking screens.)



- Screen **C** includes three parts: an **Income/Expenses** tab, a **Carryovers/State Info.** tab, and a **Prior-Year Compare** tab.
- Enter data for Schedule C, Part IV, "Information on Your Vehicle," on the **AUTO** screen. Make sure to associate the data with Schedule C by selecting **C** from the **For** box and using the applicable **MFC**.



*New for 2023:* Client business meals provided by restaurants are no longer 100% deductible beginning tax year 2023; other meal and entertainment expenses still qualify for the 100% deduction. Refer to [IRS Notice 2021-25](#) for additional information.

## Program Defaults for Screen **C**

The program's default *accounting method* (item **F**) is *cash*. Select **Accrual** or **Other** for accounting methods other than cash, as applicable. If **Other**, include a description. (The description can consist of no more than 20 characters.)

Select item **G** if the taxpayer *did not* materially participate in the business during 2023 (thus, a *passive* activity); otherwise, the program assumes that the activity is not *passive*. See Schedule C instructions and IRS Pub. 925 for details.

The program's default position for **investments** (item **32b**) is that all investments are *at risk*. If this is not true for your client, select **Some investment is NOT at risk**. (Note that item **32b** includes a link to screen **6198** for entering data to compute deductible losses for Form 6198, At-Risk Limitations.)

The program's default inventory valuation method (item **33**) is **cost**. If the valuation method is *not cost*, either:

- Mark the **Lower of cost or market** check box.
- Mark the **Other** check box, then:
  - a. Click the **SCH** link to open the **SCH** screen for unformatted attachments.
  - b. From the **Type of attachment** drop list, select **097 - Sch C, Ln 33, Close Inventory**.
  - c. Enter a number in the **Multi-form code** box (if appropriate).
  - d. Enter an explanation in the large text box under the **Multi-form code** field.

## Business Codes

**Shortcut:**  
**CTRL+**  
**SHIFT+S**

Business codes are entered in field **B** of screen **C**. The codes are listed in numerical order, then, after code **999000**, listed again in alphabetical order. Rather than scrolling and searching, locate a specific business code by placing the cursor in the **Business code** box and pressing **CTRL+SHIFT+S** to open a **Search** box.

Figure PER-17: Search for Business Codes

Results:	
211120	Crude petroleum extraction
324100	Petroleum & coal products mfg.
423500	Metal & mineral (except petroleum)
424700	Petroleum & petroleum products
457210	Fuel dealers (including heating oil & liquefied petroleum)
459910	Pet & pet supplies retailers
561740	Carpet & upholstery cleaning services
812910	Pet care (except veterinary) services

Type a search term and click **Go**. All codes that include the search term are displayed, as shown in the example in [Figure PER-17](#). To apply the code, either double-click it, select it and click **OK**, or select it and press **ENTER**.



For taxpayers described on Schedule C by business code 813000 ("Religious, grantmaking, civic, professional, & similar"), but for whom you do not want to generate "clergy" worksheets ("Wks Clergy [#]" in View/Print mode), open screen **C** and select **No** from the **Clergy Schedule C** drop list (on the lower-right side of the screen). For taxpayers who are not described on Schedule C by business code 813000 but for whom you do want to generate "clergy" worksheets, select **Yes**.

## Family Health Coverage

Enter the total amount paid for self-employed health insurance for the taxpayer, spouse, and dependents in the field on the **Family health coverage** line. This amount includes the taxpayer's out-of-pocket expenses plus any advance payment of the Premium Tax Credit the taxpayer received (in other words, the total of column A on Part III of Form 1095-A).

Deductible amounts flow first to Schedule 1, line 17, "Self-employed health insurance deduction," and the amount that is not used on Schedule 1 flows to Schedule A, line 1 ("Medical and dental expenses").



*Do not duplicate this entry on the **Family health coverage payments** line on screen **F** or line 1 of the **SEHI** screen.*

## QBI Deductions for Schedule C

A noncorporate taxpayer who has qualified business income (QBI) from any trade or business (not W-2 wages), including income from a pass-through entity, might be allowed to deduct up to 20% of that income from their taxable income.

The program assumes all Schedule C income qualifies for the QBI deduction. If this is true, complete the **Qualified Business Income (QBI) Deduction** section; otherwise, enter 0 (zero) in the **Override calculated qualified business income (or loss)** field.

## Specified Service Trade or Business

In certain circumstances, businesses are designated as a "Specified service trade or business" (SSTB). 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.

For more information, click in the **Treat as a “specified service business”** check box, and press F1, or see IRC Sec. 199A(d). See [“Qualified Business Income” on page 123](#).

## QBI Deduction Adjustments

Drake Tax provides a QBI Explanation Worksheet (“QBI Explanation” in View/Print mode), showing the items and amounts that go into the Qualified Business Income Deduction calculation. This worksheet is *not* filed with the tax return—it is for informational purposes only.

In the event you wish to change the program’s calculated amounts, Drake Tax provides override fields on screens **C, F, E, 4835, and K199** that allow you to override individual calculations. Be sure to read the helps for those fields. (Click in the field and press F1 on your keyboard.)

These overrides change the amounts appearing on the QBI Explanation Worksheet and on Form 8995 (see [“QBI Deduction” on page 111](#)) and affect the calculated amount of the QBI deduction.

## Taxpayer Filing Forms 1099

If the taxpayer made any payment in 2023 that would require him or her to file any Forms 1099, mark the **Yes** box on line **I** of screen **C**; otherwise, select **No**.

If the taxpayer filed—or will file—the required Forms 1099, mark the **Yes** box on line **J**; otherwise, mark **No**.

## Pre-2018 Passive Activity Loss Carryovers

**Screens: C, E, F, 4835** On the **Carryovers/State Info** tab of screens **C, F, and 4835**, and on the **Property Info** tab of screen **E**, you will see a column for **Regular Tax Pre-2018**. When entering passive/at-risk carryforwards from 2018, type into the fields of this column the portion of any prior-year unallowed passive loss carryovers that occurred prior to 2018. (Losses incurred prior to 2018 do not affect the QBI deduction in the year they are allowed and must be tracked separately.)

## Pre-CARES Act for Decoupled States

In 2020, New York and Kentucky chose not to adopt some or all provisions of the CARES Act (chose to “decouple” from these provisions). Due to this, Drake Tax 2020 could have produced unanticipated numbers in *state* returns for those “decoupled” states for such *federal* items, as:

- Net Operating Losses
- Form 461, Limitation on Business Losses
- Form 8990, Limitation on Business Interest Expense Under Section 163(j)
- Forms 8915, Qualified Retirement Plan Distributions and Repayments — Disaster Related
- Qualified Improvement Property Depreciation

Drake Tax 2020, therefore, included **Pre-CARES carryforward** fields on several federal screens—such as screens **C, F, 4835** (accessible from the **Carryovers/State Info.** tab), and **E**, and certain **K1** screens (accessible via a link)—to help you adjust certain amounts where necessary. If the return was updated from Drake Tax 2022 and data was present in these fields, no additional data should be entered, as the program continues to track the depleting basis. If, however, you need to make an adjustment due to a carryforward or other circumstance, enter the amount in the appropriate field.

These **Pre-CARES Act** fields are also available in the Corporation (1120), S Corporation (1120-S), Partnership (1065), and Fiduciary (1041) packages.

## Prior-Year Comparisons

A Schedule C Comparison worksheet (“Comparison Sch C” in View/Print mode) can be produced to easily compare current- and prior-year figures of Schedule C. If the return was updated from Drake Tax 2022 and had a 2022 Schedule C included, the worksheet is generated by default. For returns created in Drake Tax 2023, or to modify existing prior-year values, navigate to screen **C**, select the **Prior Year Compare** tab, and edit data as needed. To prevent the comparison worksheet from being generated, delete the **Prior-Year Compare** tab. (Press CTRL+D.) A comparison worksheet is created for each Schedule C with prior-year data.



The Schedule C Comparison worksheet is for your records and is not part of the e-file transmission.

## Depreciation

**Screen: 4562** Use screen **4562** (Depreciation Detail) to enter depreciable assets for the Schedule C business. Note that on screen **C**, the **Depreciation** field is an *adjustment* field; an amount entered in this field adjusts the calculated amount from the **4562** screen that flows to the “Depreciation and section 179 expense deduction” line of Schedule C (line 13).

Screen **4562** is accessible from the **Income** tab of the **Data Entry Menu**, or you can click the **Form 4562** link on the “Depreciation” line of screen **C**.

For more on entering depreciation in Drake Tax, see [“Form 4562” on page 162](#).



The **Depletion** field on screen **C** is an override field for line 12 (“Depletion”) of Schedule C. For information on entering oil and gas depletion on the **DEPL** screen, see [“Oil and Gas Depletion Worksheet” on page 112](#).

## Loss on Schedule C

**Screen: 6198** If Schedule C shows a loss, and all investment is *not* at risk, the program produces Form 6198, At-Risk Limitations. If part of a loss could be disallowed, enter the required data on screen **6198** (accessible from the **Income** tab). If the taxpayer does not materially participate, the loss could be limited by Form 8582, Passive Activity Loss Limitations. This is computed automatically.



Normally, amounts from Schedule C do not flow to Form 8960, but if you have a Schedule C with data that you want to flow to Form 8960, mark the **Carry to Form 8960, line 7** check box (located in the lower-center section of screen **C**).

## Sales of Assets

Screens for entering gains, losses, and sales of assets are listed in [Table PER-1](#). These screens can all be accessed from the **Income** tab of the **Data Entry Menu**.

Table PER-1: Screens for Entering Gains and Losses

Screen	Screen or Form Name
<b>8949 (or D)</b>	Form 8949, Sales and Other Dispositions of Capital Assets. This screen also covers Schedule D, Capital Gains and Losses, and Form 1099-B, Proceeds from Broker and Barter Exchange Transaction, which can be accessed from the selector field by using the codes 8949, D, or 99B.
<b>D2</b>	Loss Carryovers and Other Entries (not an IRS form)
<b>2439</b>	Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains
<b>4255</b>	Form 4255, Recapture of Investment Credit

Screen	Screen or Form Name
<b>4684</b>	Form 4684, Casualties and Thefts  <b>NOTE:</b> The TCJA suspended the personal casualty and theft loss deduction, except for personal casualty losses incurred in a federally declared disaster.
<b>4797</b>	Form 4797, Sales of Business Property
<b>6252</b>	Form 6252, Installment Sale Income
<b>6781</b>	Form 6781, Gains and Losses From Section 1256 Contracts and Straddles
<b>8824</b>	Form 8824, Like-Kind Exchanges
<b>HOME</b>	Basis of Primary Residence (not an IRS form)
<b>99C</b>	Form 1099-C, Cancellation of Debt

When forms require identical data (such as when amounts from screens **4684** and **6252** must flow to Form 4797), Drake Tax prints the data on the appropriate forms.

## Capital Asset Reporting

**Screens:** Capital gains and losses from stocks, bonds, mutual funds, and other investments are listed on Form **8949**, **D**, **D2** **8949**, Sales and Other Dispositions of Capital Assets, and summarized on Schedule D. Information for these forms is entered on screens **8949** (or **D**), and **D2**, available under the **Income** tab of the **Data Entry Menu**.

## Form 8949, Form 1099-B, and Schedule D

**Screens:** Screen **8949** (or **D**) has fields for Form 8949, Schedule D, and Form 1099-B data. Following are some guidelines for data entry on this screen.

- **Applicable Part I/Part II check box...** — Indicate by selecting an option from the drop list if the basis of the asset was reported to the IRS or if the transaction was not reported on Form 1099-B. (Selection **1** is the default.)
- **Description** — Describe the capital gain or loss item. You can use stock ticker symbols or abbreviations to describe the property as long as they are based on the descriptions of the property as shown on Form 1099-B or 1099-S (or a substitute statement).
- **Date acquired** — Enter the date the item was acquired as an eight-digit number using MMDDYYYY format. This date is used to determine whether the sale is short-term or long-term. Type in VARIOUS, INHERIT, or INH2010, as applicable. ("VARIOUS," "INHERIT," and "INH2010" are the only acceptable non-numeric descriptions for e-file.)

- **Date sold or disposed** — Enter either Bankrupt, Worthless, or Expired, as applicable, if a single date does not apply. (If Expired is entered, the return must be paper filed.) Do not type VARIOUS in this field.
- **Type of gain or loss (override)** — Drake Tax uses the data entered on screen **8949** to automatically determine whether the sale is classified as short-term or long-term; use this field to override the determination.
- **Ordinary** — Select this box if “Ordinary” is marked in box 2 of Form 1099-B.
- **Proceeds from sale...** — Enter the sale amount. If only the *gain* amount is available, enter the gain amount and leave the **Cost or other basis** field blank.
- **Cost or other basis** — Enter the cost or basis. If only the *loss* amount is available, enter the loss amount and leave the **Proceeds from sale...** field blank.
- **AMT cost basis** — Enter the cost basis for AMT purposes.
  - **U.S. real property sold by a nonresident** — If this box is marked, the program might have to do a special calculation for the “Alternative minimum taxable income” line (line 4) of Form 6251 (AMT — Individuals). See Form 6251 instructions for more information.
- **Wash sale loss disallowed** — See Schedule D instructions and Pub. 550 for more information on wash sales.
- **Adjustments** — Enter up to three adjustments per screen. For each adjustment, select the applicable code from the drop list and enter the amount of adjustment (and AMT adjustment, if applicable) to the gain or loss.
- **AMT** — Use the AMT-related fields on screen **8949** as needed:
  - Data produced on the Capital Gains and Losses worksheet (“Schedule D\_AMT” in View/Print mode) is identical to those values on the regular Schedule D *unless* entries are made in the **AMT adjustment to gain or loss** or **AMT cost basis** fields.
- **Collectibles** — Mark this box if the proceeds are from sales of collectibles.
- **Federal tax withheld** — Enter the amount of federal tax withheld from the proceeds of the sale.
- **Mark if loss based...** — Mark this box if the loss is not allowed based on the amount in box **1d**.
- **Qualified Small Business Stock** — Choose from the **Amount of section 1202 gain** drop list the percentage of qualified small business stock that the taxpayer held for five years and then sold, then enter an amount in the second field.
  - **Q1** — 50% if acquired after 8/10/1993 (default)
  - **Q3** — 75% if acquired from 2/18/2009 to 09/27/2010
  - **Q4** — 100% if acquired from 09/28/2010 to 12/31/2018
- **State Use Only** — Check with your state for required codes.
- **Summaries** — If you are reporting only the *totals* of 1099-B transactions rather than reporting individual transactions, read the notes at the bottom of the **8949** screen. For information on attaching PDF documents to e-filed returns, see [“PDF Attachments” on page 211](#).



Click the **Additional Info.** tab at the top of screen **8949** and complete the screen to produce a copy of Form 1099-B for those states that require this form for e-file purposes. No data entered on the **Additional Info.** tab flows to any federal form.

## Screen D2, Carryovers, and Other Entries

**Screen:** **D2** Screen **D2** has fields for short-term gains/losses from other sources, long-term gains/losses from other sources, loss carryovers from the prior year, capital gain tax computation, and federal withholding. If the taxpayer's information was entered in Drake Tax last year, the gains/losses and carryover fields are updated automatically.

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

### — Short- and Long-Term Transactions —

Lines 1a and 8a of Schedule D on screen **D2** are used to report all short-term and long-term transactions for which basis was reported and for which there are no adjustments.

In the **Proceeds** field of line 1a, enter the total sales price, and in the **Cost or other basis** field, enter the cost or other basis for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments. Enter information on the long-term transactions on line 8a.



If you make an entry on either line 1a or 8a of screen **D2**, do not make an entry on screen **8949**.

## Form 8997

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

Foreign eligible taxpayers must waive certain treaty benefits on future inclusions in order to defer capital gains by investing in a QOF. To waive treaty benefits, the preparer must select the respective benefits waiver check box at the bottom of screen **8997**.

Screen **8997** is accessible from the **Other Forms** tab of the **Data Entry Menu**.

## Form 8949 Imports

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

To 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, visit [Knowledge Base article “10139: Schedule D, Form 8949, GruntWorx Trade Imports,”](#) and download the [D20 – D23 – 8949 Template](#) at the bottom of the page. Open the worksheet 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.

## Import Process

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**. Review the example spreadsheet format.
3. When you are ready to begin the import process, click **Next**.
4. When the **Form 8949 Import – Step 1** window is opened, click **Browse**, find your worksheet, click **Open**, then click **Next**.
5. When the **Form 8949 Import – Step 2** window is opened, select the row where you wish to begin the import. (If the first row in the asset list is column headers, begin the import with row 2.) Click **Next**.
6. When the **Form 8949 Import – Step 3** window is opened, click **Import**.
  - If there were no previous **8949** screens in Drake Tax, the **8949** screen with the imported data is opened; if there is more than one **8949** screen in the return, you see an existing forms list, and the **8949** screen with the imported data will be last in the list. Select it and click **Item Detail** (or just double-click the line) to open the **8949** screen. Each import creates a separate **8949** screen.

If you use an Excel worksheet from other sources, you can still import the asset information into Drake Tax, but you need to 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.

- If creating or importing your own worksheet, note that the import file must contain the specified columns in the specified order. (See [Table PER-2](#).) Refer to the Drake Tax 8949 Import sheet for the proper order. Each column represents a field on the **8949** screen in the 1040 package (with the exception of the **EIN** and **Use worksheet for accrued market adjustment** fields); the column order is determined by the tab order of the fields on the 1040 **8949** screen (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).



To mark a check box, enter any character into the applicable spreadsheet column.

Table PER-2: Worksheet Columns for Form 8949 Import

Worksheet Column	Associated Field on Screen 8949
A	TSJ
B	F
C	State
D	City
E	Applicable Part I/II check box on Form 8949
F	Description of property
G	Date acquired
H	Date sold or disposed
I	Type of gain or loss
J	Ordinary
K	Proceeds from sale of stocks, bonds, or other capital assets
L	Cost or other basis
M	AMT Cost basis
N	Accrued market discount
O	Wash sale loss disallowed
P	U.S. real property sold by a nonresident
Q	Form 8949 adjustment code – Adjustment #1
R	Adjustment to gain or loss – Adjustment #1
S	AMT adjustment to gain or loss – Adjustment #1

Worksheet Column	Associated Field on Screen 8949
T	Form 8949 adjustment code – Adjustment #2
U	Adjustment to gain or loss – Adjustment #2
V	AMT adjustment to gain or loss – Adjustment #2
W	Form 8949 adjustment code – Adjustment #3
X	Adjustment to gain or loss – Adjustment #3
Y	AMT adjustment to gain or loss – Adjustment #3
Z	Proceeds from collectibles
AA	Federal tax withheld
AB	Mark if loss based on amount in box 1d not allowed
AC	QSBS code
AD	Amount of section 1202 gain (QSBS)
AE	State name – #1
AF	State ID number – #1
AG	State tax withheld – #1
AH	State name – #2
AI	State ID number – #2
AJ	State tax withheld – #2
AK	State use code (DC, ID, PA, VT, WI only)
AL	State adjustment to gain or loss (DC, ID, PA, VT, WI only)
AM	State cost or other basis (if different) (DC, ID, PA, VT, WI only)
AN	LLC # (DC, ID, PA, VT, WI only)

## Nonrecaptured Losses (Form 4797, Part IV)

**Screen: 4797** To enter nonrecaptured losses, use the **Part IV, Recapture Amounts when business use drops...** section of screen **4797**. For sold property listed on Form 4797, depreciation must sometimes be recaptured as ordinary income. (For more on depreciating sold assets in Drake Tax, see [“Depreciating Sold Assets” on page 168](#).)

## Qualified Opportunity Fund Deferrals

Mark the **QOF deferral or inclusion** check box on screen **4797** if the taxpayer is:

- Electing to defer the asset as the result of an investment into a QOF within 180 days of the **Date Sold**
- Recognizing a sale in the QOF and needs to report the inclusion of the deferred amount

If the check box is marked, only the description and the amount of the inclusion or deferral is printed on line 2 of Form 4797. Enter deferral amounts in the **Cost or other basis** field; enter inclusion amounts in the **Gross sales price** field.

No amounts entered on screen **4797** flow to Forms 8949 or 8997 when this option is selected.

## Form 1099-S Transactions

**Screens:** Enter data from Form 1099-S, Proceeds from Real Estate Transactions, on one of the following screens, as applicable:

**HOME, 4562, 4797, 8949**

- **HOME** screen (for sale of a personal residence)
- **4797** screen (for sale of a business property) or on the **4562** screen when used to generate Form 4797 (On either screen, select the **1099-S** option.)
- **8949** screen (for sale or other disposition of capital assets)

## Group and Installment Sales

**Screens:** Much of the information needed on Form 6252, Installment Sale Income, flows to the form from **4562, 4797, 6252** screen **4562** or screen **4797**. The program then completes Form 6252 automatically, unless you tell it not to. (See ["Completing Your Own Form 6252" on page 69](#) for more.)

## Reporting Installment Sales

### — Nonbusiness Assets —

Follow these steps when entering an installment sale of an asset that is *not* a business asset:

1. Open screen **6252**, available from the **Income** tab of the **Data Entry Menu**.
2. At the top of screen **6252**, enter a **Description of property** and the amount of payment received in the current year in the **Receipt category** section.
3. On the left side of the screen, under **Current Year Sale Information**, complete the required fields (lines 2 – 8, 11, and 15 (if applicable)).

Drake Tax produces Form 6252 and sends any gain to Schedule D, line 11.



For nonbusiness assets, mark the **Qualified small business stock, Collectible, or Noncapital asset** check box, as applicable.

## — Business Assets —

Follow the below steps when entering an installment sale of an asset that *is* a business asset.

### Without Using the **4562** Screen

1. Complete the **4797** screen for the sold asset. Be sure to make a selection from the **Property Type** drop list.
2. Indicate with a multi-form code number in the **Installment sale MFC** field (lower-left side of the screen) that the sale is also reported on Form 6252. (For more on how multi-form codes work, see ["Associating One Screen with Another" on page 27](#).)
  - You can create a **6252** screen by clicking the **Form 6252** link and entering payments in the **Receipt category** section at the top of the **6252** screen. Press PAGE DOWN for a fresh instance of screen **6252**.
3. Open the **6252** screen indicated by the MFC number. (For instance, if you entered "2" in the **Installment sale MFC** field of screen **4797**, indicating the second screen **6252**, then open the second instance of the **6252** screen.)
4. Complete any fields at the top of the **6252** screen (those fields above the **Current Year Sale Information** section), including the payment received in the current year in the **Receipt category** section.

### Using the **4562** Screen

1. For the sold asset, open screen **4562** and complete the **Date sold** field in the **If sold** section on the lower-right quadrant of the screen. This causes the program to stop calculating depreciation.
2. Enter a **Sale price** and an **Expense of sale**.
3. Indicate with a multi-form code number in the **Installment Sale MFC** field that the sale is also reported on Form 6252.
4. Make a selection from the **Listed Prop Type** drop list (in the top-right quadrant of the screen).
5. Open the **6252** screen instance tied to your **4562** screen and complete the following:
  - **Line 19 and Receipt category section** — Complete line 19 if not a current-year sale. (Use a whole number, not a decimal equivalent—for example, enter 62% as 62, not .62.) Enter any interest or principal received in the current year in the **Receipt category** section.

- **Part III (Related Party Installment Sale Income)** — Complete **Part III** of Form 6252 if (a) the sale was made to a related party, and (b) the income is *not* from the final payment in the current tax year. (Click the **Part III** tab at the top of screen **6252**.)
- **Unrecaptured Section 1250 Gain** — If unrecaptured §1250 gain is present, enter the gain amount in the **Unrecaptured 1250 gain** field. (Find the field just below line 25 of the **6252** screen.) The taxable amount is calculated on the Unrecaptured Section 1250 Gain Worksheet – Line 19 (“Wks 1250” in View/Print mode) and flows to Schedule D, line 19, based on these calculations.

6. Calculate and view the return. See line 35 of Form 4797 for the recapture amount (if any).

## Group Sales

**Screen: 4562** For sales of multiple assets in one sale (“group” sales), enter a **Group sale number** (item #2 in [Figure PER-18](#)). Similar to MFCs (item #1), group sale numbers link all like-numbered items in one sale. In the example in [Figure PER-18](#), the sale of all assets reported on screens **4562** with a **Group sale number** of “3” will be grouped in one sale. See [“Group Sales” on page 168](#) for more details on group sales.

Figure PER-18: Linking Installment Sale from Screen **4562** to Second **6252** screen (Item #1) and Linking an Asset to the Third “Group” Sale of Assets (Item #2)

<b>If sold:</b>	<input type="checkbox"/> F	<input type="checkbox"/> ST	<input type="button" value="▼"/>
Date sold.....	10-10-2022		
Sale price.....	150000		
Expense of sale.....	20000		
Form 4797, line 26d depreciation.....			
Form 4797, other Part III depreciation.....			
<b>Installment Sale MFC.....</b>	1		
Like-Kind Exchange MFC.....			
<input type="checkbox"/> 1099-S <input type="checkbox"/> Sold to related party			
<input type="checkbox"/> Involuntary conversion <input type="checkbox"/> Do not carry personal portion to 8949			
<input type="checkbox"/> <input type="checkbox"/> Include gain/loss on 4797, line 1b or 1c (Partial disposition MACRS)			
<input type="checkbox"/> Qualifying State Only Like-Kind Exchange			
<b>Group Sale Information</b>			
<b>Group sale number.....</b>	2		
Group sales price.....	100000		
Group expense of sale.....	7500		
Fair market value of THIS asset.....	=		
Expense of sale for THIS asset.....	=		

## Out of Service (Not Sold)

Also on screen **4562** is the **Date taken out of service** field ([Figure PER-19 on page 69](#)). An entry in this field stops calculation of depreciation on this asset. The program continues to keep track of

this asset when you update this year's return into next year's program unless you mark the **Do Not Update to next year** check box.

Figure PER-19: Stopping Depreciation of Out-of-Service Asset

**Additional Asset Information**

Date taken out of service IF NOT SOLD.....

Do Not Update to next year  Abandoned

Recapture because business use dropped to 50% or less

Main home for Form 8829

Investment credit code.....

## Partial MACRS Dispositions

**Screens:** **4562, 4797** On screen **4797**, along with the installment sale and group sale fields, additional fields include check boxes for indicating **Involuntary conversion**, **Abandoned**, **Sold to a related party**, **QOF deferral or inclusion**, and whether or not you would like to **Include gain/loss** [of the asset] **on Form 4797, line 1b or 1c** (only if electing to use a partial disposition for a MACRS property).

When the **Include gain/loss on Form 4797, line 1b or 1c** check box is marked on screen **4797**, the total gain (loss) flows to its respective line. (This same check box can also be selected in the **If Sold** section of screen **4562** if the preparer does not duplicate the asset on the **4797** screen.) If the preparer wants to override the program's calculation, they may use either **Print this amount on Form 4797, line 1b (1c)** field on screen **4797**.

## Completing Your Own Form 6252

**Screen:** **6252** On the **6252** screen is the option to *not* use data flowing from the **4562** and **4797** screens but to complete your own Form 6252. Although this procedure is not recommended, there might be an occasion where you would want to adjust the computed numbers on a Form 6252, and Drake Tax accommodates this contingency.

If you select the **Asset data will NOT flow to this Form 6252** check box on screen **6252** (figure right), the data you entered on neither the **4562** nor **4797** screen for this sale flows to this Form 6252, even if you entered a number in the **Installment sale MFC** fields on those screens.

Force gain to Form 4797

Qualified small business stock  
Section 1202 rate.....

Section 1250 property

U.S. real property sold by a nonresident

Collectible

Noncapital asset (treat as ordinary income)

**CAUTION: Use of the check box below is NOT RECOMMENDED. Selecting this box means you are completing your own Form 6252 and ignoring the "Multi-form code" on screens 4562 or 4797 directing data to this screen.**

Asset data will NOT flow to this Form 6252

If you enter data on the **6252** screen and *do not* mark the **Asset data will NOT flow to this Form 6252** check box, the program uses the information entered at the top of the **6252** screen, and any data on lines 6 and 15, but ignores *everything else* entered on the **6252** screen, using instead data flowing from the **4562** or **4797** screens to complete the Form 6252.

## Part III Tab of Screen 6252

Part III of Form 6252, Related Party Installment Sale Income, is reported on the **Part III** tab of the **6252** screen.

### Like-Kind Exchange

A like-kind exchange, also known as a section 1031 exchange, is a way of trading or exchanging assets and, in many cases, deferring gain on the trade (or exchange). “Like-kind” means that the property the taxpayer trades must be of the same type as the property they receive. Any like-kind exchanges that take place after December 31, 2017, may generally include only real property.

If the exchange is a straight-up exchange (asset-for-asset), no gain is typically recognized from the exchange (or trade); the taxpayer is deemed to have the same basis in the new asset as they had in the asset they traded.

Exchanges that do not result in a gain must still be reported on Form 8824. Form 4797 is produced only if there is realized gain on the exchange.

To enter a like-kind exchange in Drake Tax:

1. Complete a **4562** screen for the asset the taxpayer *traded* (or gave up). It is recommended to add an identifier in the **Description** field to easily recognize that the asset was involved in a like-kind exchange.

For example, if the taxpayer traded a single-family home and received a duplex in exchange, you might enter 8824 – Single family home as the **Description** of the asset the taxpayer relinquished.

2. Complete screen **8824**. Note that:
  - Fields referencing **other property given up** represent property that the taxpayer relinquished *in addition to* the property (in this example, the single-family home).
  - Fields referencing **other property received** represent any cash paid to the taxpayer by the owner of the other property, the fair market value (FMV) of any property the taxpayer received in addition to the new asset, and any liabilities assumed by the owner of the new asset. The sum of these amounts is reduced by any *exchange* expenses the taxpayer incurred.
  - Fields referencing **like-kind property received** track the FMV of the *exchange* property the taxpayer received and the adjusted basis of the like-kind property given up.



The adjusted basis includes the sum of the adjusted basis of the property the taxpayer gave up, any *exchange* expenses (if not used in the **other property received** figure), and any amount of cash the taxpayer may have paid the other party in addition to the like-kind property.

3. Once you enter all applicable information on screen **8824**, calculate and view the return, and review Form 8824. Refer to the “Basis of like-kind property received” line. Generally, the amount on this line becomes the adjusted basis of the new asset unless there was an additional amount incurred in obtaining it.
4. Follow the applicable steps in [“Using the Like-Kind Exchange Rule,”](#) following, or [“Elected Out of Like-Kind Exchange Rule” on page 73](#). Details on the like-kind exchange rule are found on [IRS Publication 946](#).

## Using the Like-Kind Exchange Rule

Generally, the old asset continues depreciating *unless* the taxpayer elects *out* of the like-kind exchange rule. When using the like-kind exchange rule, do *not* make an entry in the **If sold** section of screen **4562** for the original asset. Instead, create a new **4562** screen for the new asset that shows only the cost of the new asset plus any additional amount paid to obtain it.

For example, if the taxpayer traded the single-family home plus \$5,000 for the received duplex, the extra \$5,000 becomes the **Cost** of the duplex entered on the new **4562** screen. The **Date placed in service** is the date of the trade.

Figure 20: A Like-Kind Exchange Scenario on Screen **4562** Using the Like-Kind Exchange Rule

DRAKE 2022 - Data Entry (400008011 - EXCHANGE, EDWARD) - (CONTAINS SENSITIVE DATA) - (ScrNum 16, ScrVer 1, RecVer 1)

**Form 4562** For: E (A, C, E, F, 2106, 4835, AUTO, 8829, K1P, K1S) \*Use <F3> to switch to grid mode\* State Information CA

Video: 4562 Import  
Video: Group Sales

**Description** 111 SQUASH STREET SFR

	Date Acquired	Cost	Business % use	Used Prop	Listed Prop Type
Property type.....	12 50	07-01-2021	258635		
Building qualifies for Section 1.263(a)-3(h) election					
Method.....					
Life.....	ARR	27.5			
Prior depreciation.....		4311			
Salvage value.....					
Override regular depreciation.....	=		=		=
179 expense elected this year.....	=		=		=
179 expense allowed this year.....	=		=		=
179 expense elected in prior years.....		0			
179 expense allowed in prior years.....		0			
Bonus depreciation.....	Additional Depr Elections	=	=		=
Prior bonus depreciation. Safe Harbor.....		0			
Basis ONLY if different from cost.....	=		=		=
Land cost (Do NOT include in cost above).....					
Date placed in service (ONLY if different than date acquired).....					
Force convention.....	=	Do not use MACRS % tables.....	=		
Amortization.....					
Code section.....			<input type="checkbox"/> Elect additional first-year deduction		

**Additional Asset Information**

Date taken out of service IF NOT SOLD.....

Do Not Update to next year  Abandoned

Recapture because business use drop

Main home for Form 8829

Investment credit code

**Fixed Asset Manager**

Asset number.....

Department number.....

Asset Category.....

**State-Specific Information**

For FL, IN, KY, and PA only

Occurrence of Schedule (1-99, default is '1' if left blank).....

Schedule form data flow.....

Removal Method.....

Indiana County.....

**Do NOT enter anything in the Like-Kind Exchange MFC field**

If sold: F  ST

Date sold.....

Sale price.....

Expense of sale.....

Form 4797, line 26d depreciation.....

Form 4797, other Part III depreciation.....

Installment Sale MFC.....

Like-Kind Exchange MFC.....

1099-S  Sold to related party

Involuntary conversion  Do not carry personal portion to 8949

Include gain/loss on 4797, line 1b or 1c (Partial disposition MACRS)

Qualifying State Only Like-Kind Exchange

**Group Sale Information**

Group sale number.....

Group sales price.....

Group expense of sale.....

Fair market value of THIS asset.....

Expense of sale for THIS asset.....

Record 1 of 1 Press Page Down for New Screen Press F1 or Right-Click for Help (Screen Help)

# Electing Out of Like-Kind Exchange Rule

To elect out of the like-kind exchange rule:

1. Enter the date of the transaction in the **Date sold** field on the **If sold** section of the **4562** screen for the traded asset.
2. Enter the corresponding **Like-Kind Exchange MFC** (multi-form code) to indicate that this asset is tied to screen **8824**. (For example, for a like-kind exchange tied to the first **8824** screen, enter 1).

Figure PER-21: A Like-Kind Exchange Scenario on Screen **4562** Electing Out of the Like-Kind Exchange Rule

DRAKE 2022 - Data Entry (400008011 - EXCHANGE, EDWARD) - (CONTAINS SENSITIVE DATA) - (ScrNum 16, ScrVer 1, RecVer 1)

**Form 4562** For: E (A, C, E, F, 2106, 4835, AUTO, 8829, K1P, K1S) \*Use <F3> to switch to grid mode\* State Information CA

Video: 4562 Import  
Video: Group Sales

Description	Date Acquired	Cost	Business % use	Used Prop	Listed Prop Type
111 SQUASH STREET SFR	07-01-2021	258635		<input type="checkbox"/>	
Property type..... 12 50	Federal				
<input type="checkbox"/> Building qualifies for Section 1.263(a)-3(h) election	State (if different)				
<input type="checkbox"/> Method.....	AMT (if different)				
Life.....	Book (if different)				
Prior depreciation.....					
Salvage value.....					
Override regular depreciation.....					
<input type="checkbox"/> 179 expense elected this year.....					
179 expense allowed this year.....					
179 expense elected in prior years.....					
179 expense allowed in prior years.....					
<input type="checkbox"/> Bonus depreciation..... Additional Depr Elections					
Prior bonus depreciation. Safe Harbor.....					
Basis ONLY if different from cost.....					
Land cost (Do NOT include in cost above).....					
Date placed in service (ONLY if different than date acquired).....					
<input type="checkbox"/> Force convention..... = <input type="checkbox"/> Do not use MACRS % tables.					
Amortization.....					
<input type="checkbox"/> Code section.....	<input type="checkbox"/> Elect additional first-year deduct				
<b>If electing OUT of the like-kind exchange rule - enter the exchange date in the Date Sold field. The new asset would also be entered on a new 4562 screen.</b>					
<b>Additional Asset Information</b> Date taken out of service IF NOT SOLD..... <input type="checkbox"/> <input type="checkbox"/> Do Not Update to next year <input type="checkbox"/> Abandoned <input type="checkbox"/> Recapture because business use dropped to 50% or less <input type="checkbox"/> Main home for Form 8829 <input type="checkbox"/> Investment credit code..... <input type="checkbox"/>					
<b>Fixed Asset Manager</b> Asset number..... Department number..... Asset Category..... <input type="checkbox"/>					
<b>State-Specific Information</b> State <input type="checkbox"/> Asset type <input type="checkbox"/> ITC code <input type="checkbox"/> <b>For FL, IN, KY, and PA only</b> Occurrence of Schedule (1-99, default is '1' if left blank)..... <input type="checkbox"/> Schedule form data flow..... <input type="checkbox"/> Removal Method..... <input type="checkbox"/> Indiana County..... <input type="checkbox"/>					
<b>If sold:</b> F <input type="checkbox"/> ST CA Date sold..... 12-31-2022 Sale price..... Expense of sale..... Form 4797, line 26d depreciation..... Form 4797, other Part III depreciation..... Installment Sale MFC..... <input type="checkbox"/> <b>Like-Kind Exchange MFC</b> ..... <input checked="" type="checkbox"/> <input type="checkbox"/> 1099-S <input type="checkbox"/> Sold to related party <input type="checkbox"/> Involuntary conversion <input type="checkbox"/> Do not carry personal portion to 8949 <input type="checkbox"/> Include gain/loss on 4797, line 1b or 1c (Partial disposition MACRS) <input type="checkbox"/> Qualifying State Only Like-Kind Exchange <b>Group Sale Information</b> Group sale number..... <input type="checkbox"/> Group sales price..... Group expense of sale..... Fair market value of THIS asset..... = Expense of sale for THIS asset..... =					

Record 1 of 1 Press Page Down for New Screen Press F1 or Right-Click for Help (Screen Help)

3. Create a new **4562** screen for the asset received. The **Cost** should include the adjusted basis of the old asset, the cost of the new asset, and any extra amounts paid to obtain the asset.

- For example, if the taxpayer traded the single-family home plus \$5,000 in exchange for the duplex, the cost of the new asset would be the sum of the single-family home cost (less depreciation), the cost of the duplex, and the additional \$5,000.

Figure 22: Screen **8824**

**Form 8824 - Like-Kind Exchanges**

TSJ    ST     Force recognized gain to Schedule D State Information  
CA OR

**Part I - Information on the Like-Kind Exchange**

1 Description of like-kind property given up:  
111 SQUASH STREET SFR

2 Description of like-kind property received:  
333 CARROT COURT DUPLEX

3 Date property given up was originally acquired..... 07-01-2021  
4 Date property actually transferred to other party..... 12-31-2022  
5 Date property received was identified by written notice to another party..... 12-15-2022  
6 Date property actually received from other party..... 12-31-2022  
 Force recognized gain to be treated as long-term

**Part III - Realized Gain/Loss, Recognized Gain and Basis**

NOTE: Complete lines 12 and 13 only if you gave up property that was NOT like-kind. Otherwise, go to line 15.

12 Fair market value of other property given up.....  
13 Adjusted basis of other property given up.....  
15 Cash received, fair market value of other property received.....  
16 Fair market value of like-kind property received..... 500000  
18 Adjusted basis of like-kind property given up, net amounts paid to other party, plus any exchange expenses not used on line 15..... 300311  
21 Ordinary income.....

Complete this section only if the exchange was with a RELATED PARTY

ID number.....	<input type="checkbox"/> EIN
Name.....	
Relationship.....	
Street address.....	
City.....	
U.S. ONLY      State, ZIP.....	
Foreign ONLY      Province/State, Country, Postal code...	<input type="button" value="Click to Access"/>
9      Did related party dispose of this property this year?.....	<input type="checkbox"/> Yes <input type="checkbox"/> No
10      Did taxpayer dispose of new property during current year?.....	<input type="checkbox"/> Yes <input type="checkbox"/> No
11      If either 9 or 10 is "Yes", indicate whether one of the following exceptions applies:	
<input type="checkbox"/> Disposition was after the death of either of the related parties	
<input type="checkbox"/> Disposition was an involuntary conversion, and the threat of conversion occurred after the exchange	
<input type="checkbox"/> IRS can be convinced that tax avoidance was not a principal purpose in either exchange	

Figure 23: Entering a Detail Worksheet for Line 18 of Screen **8824**

**4.** Attach a statement stating that the taxpayer is electing out of the like-kind exchange rule. Note that the election must be made on a timely filed return and can only be revoked with the consent of the IRS.

Make the election using screen **SCH**. Select **E – Election Explanation – For certain IRS code elections** as the **Type of attachment/statement**, and provide details on why the taxpayer is opting out. An “Election Stmt” is produced in View/Print mode and is e-filed with the return.

For more information on how to depreciate assets involved in a like-kind exchange, see [IRS Publication 946](#) or the [Instructions for Form 4562](#). For details on figuring the basis of assets, refer to [Publication 551](#).

See [Knowledge Base article “10160: 8824 - Like-Kind Exchange”](#) for additional information on entering like-kind exchanges in Drake Tax.

## Basis of Primary Residence

**Screen:** Use the **HOME** (Basis of Primary Residence) screen to complete the following tasks:

### **HOME**

- Report the sale of a primary residence
- Determine the taxpayer's basis in the primary residence and calculate the tax implications of the transaction
- Reduce the maximum exclusion if the taxpayer is eligible for part, but not all, of the gain exclusion
- Apply the appropriate treatment for the gain (loss) on the transaction
- Indicate that a surviving spouse is taking the MFJ exclusion for gain on the sale
- Calculate the amount of recapture in a year of sale if the First-Time Homebuyer Credit (Form 5405) was taken on the home

Values entered on the **HOME** screen are updated each year until the property is sold.

## Related Worksheets

A Primary Residence Calculations worksheet (“Wks 2119” in View/Print mode) is generated with the return when a **Date home was sold** is entered on the **HOME** screen. It consists of three parts:

- Worksheet 1: Adjusted Basis of Home Sold
- Worksheet 2: Taxable Gain on Sale of Home
- Worksheet 3: Reduced Maximum Exclusion

These pages are for informational purposes only to allow the basis in the home to be tracked.

## Updating from the Prior Year

Data entered in the **Date home was purchased** field, the fields in the **Basis of Home** section, and the fields in the **Form 5405 Repayment Information** section are included in the Drake Tax update routine. These fields are updated as long as there is no date in the **Date home was sold** field. Once the home is sold, there is no need to continue tracking the basis.

## Schedule D

The home sale flows to Schedule D only if the gain on the sale (line 5 of Worksheet 2 ("Wks 2119")) exceeds the exclusion amount (line 7 of Worksheet 3). If Schedule D is generated, both the gain on the home and the section 121 exclusion (if applicable) appears on Schedule D. "Wks 2119" is still generated, but Schedule D is added to report the taxable gain on the sale.

## Section 121 Calculation

The program calculates the section 121 exclusion using the number of days during the last five years that the taxpayer used the home and the number of days the home was owned during the past five years. Enter this information in the **Calculate Section 121 Exclusion** section of the **HOME** screen.

## Conversion to Business Use

If a home was lived in and then converted entirely to rental or business use and subsequently sold, the transaction must be shown on Form 4797. Mark the **Carry taxable gain to 4797** box (in the **Miscellaneous** section) to have the applicable **HOME** screen information flow to Form 4797.

## Exclusion for Surviving Spouse

For two years after the death of a taxpayer, a spouse is permitted to take the MFJ exclusion for gain on the sale of a principal residence, assuming the normal requirements for the exclusion are met. To indicate that the surviving spouse is taking the exclusion, mark the **Recently widowed taxpayer eligible for MFJ exclusion** box in the **Miscellaneous** section of the **HOME** screen.

## First-Time Homebuyer Credit

If the First-Time Homebuyer Credit was taken for the residence in 2008 or 2009 and there has been a disposition or change in the use of the residence *or* the credit is now being repaid, complete the applicable fields in the **Form 5405 Repayment Information** section of the **HOME** screen.

See ["First-Time Homebuyer Credit" on page 151](#) for more information.

# Retirement Income

**Screens:** Most retirement income data is entered using screens **1099**, **8606**, and **ROTH**. Screens **3** and **4** include fields for entering retirement data directly into the generated 1040. Amounts entered in these fields are combined with any corresponding calculations from the **1099**, **8606**, and **ROTH** screens.

## Form 1099-R

**Screen:** Use screen **1099** (accessible from the **General** tab of the **Data Entry Menu**) to enter data, including distribution amounts, from Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

The **1099** screen consists of two tabs: **1099-R** and **Special Tax Treatments**. The **Special Tax Treatments** screen has fields for the Simplified General Rule Worksheet, qualified charitable distributions, HSA funding distributions, public safety officers, a check box for indicating income received because of the death of a spouse (state-use only), and Ohio school districts.

## 1099 Verification

Optional verification fields help ensure that distribution and withholding amounts are correct by requiring re-entry of federal and state distributions and federal withholding amounts at the bottom of screen **1099**. Activate or disable this feature from the **Setup > Options > Data Entry** tab by toggling the **Activate W-2 wage and withholding verification fields** check box.

## Items Not Reported on 1099-R

**Screen:** Use screen **3** for IRA and pension distribution amounts that were *not* reported on a 1099-R. Enter total and taxable portions of these amounts ([Figure PER-24](#)).

Figure PER-24: Adjustment Fields for IRS and Pension Distributions (Screen **3**)

<b>4a</b>	IRA distributions received (if no 1099 was received).....	+/-	+/-
<b>4b</b>	Taxable portion of IRA distributions above..... <input type="checkbox"/> Early distribution, calculate penalty	+/-	+/-
<b>5a</b>	Pension distributions received (if no 1099 was received).....	+/-	+/-
<b>5b</b>	Taxable portion of pensions above..... <input type="checkbox"/> Early distribution, calculate penalty	+/-	+/-

These amounts are calculated with the corresponding amounts from the **1099** and **8606** screens and carried to the “IRA distributions” and “Pensions and annuities” lines of Form 1040. Do not duplicate entries made on the **1099** or **8606** screens.



Mark the applicable check box on screen **3** to have the program calculate the penalty for early distribution of the taxable portion of IRA distributions or pensions entered in fields **4b** or **5b**.

## Substitute 1099-R

To file a substitute 1099-R (Form 4852), refer to [“Substitute W-2, W-2c, or 1099-R” on page 43](#).

## Rollover of Pensions and Annuities

**Screen: 1099** If a 1099-R *distribution* should be excluded from income because it was rolled over into another qualified plan, indicate so by selecting the appropriate option from the **Rollover or conversion into another account** drop list:

- **S** — Rolled over into the same type of account; the word “ROLLOVER” is displayed on the “Taxable amounts” section of the “IRA distributions” or “Pensions and annuities” line of Form 1040
- **X** — Rolled over into another type of plan

If a 401(k) or other qualified plan is *directly rolled over* to a Roth IRA, select **G – Taxable direct rollover to Roth, reported directly on Form 1040**. The rollover amount is reported on the Roth Basis Computation Worksheet (“ROTH\_BAS” in View/Print mode).

See [“Converting to a Roth IRA” on page 82](#) for information on distributions converted to a Roth IRA.

## FATCA Filing Requirements

Mark the **FATCA** check box (between items 11 and 14 in the middle-left section of screen **1099**) if distributions entered on this screen fall under the FATCA requirements.

See [“FATCA Filing Requirements” on page 52](#) for more information.

## Forms SSA-1099 and RRB-1099

**Screens:** Use the **SSA** screen (from the **General** tab of the **Data Entry Menu**) or **RRP** screen (**Income** tab) to enter data from Form SSA-1099 or Form RRB-1099. If these forms were not distributed, use screen **3** to enter the following Social Security (or equivalent) benefit amounts:

- **Net Social Security benefits received for 2023**
- **Lump-sum benefits from prior years** (total received and taxable portion)
- **Net railroad Social Security equivalent Tier 1 benefits received for 2023**

These figures are combined with any Social Security or equivalent benefit amounts from the **SSA** screen (**SSA-1099/RRB-1099, Box 5** field), calculated, and displayed on the “Social security benefits” line (6) of Form 1040.



To treat Medicare premiums as self-employed healthcare coverage, make sure SE income is present in the return, enter family healthcare coverage payments on either screen **SEHI, C, or F**, and mark the **To treat Medicare premiums as self-employed...** check box on the **SSA** screen. Medicare premiums flow to Form 7206 (“Wks SEHID”) instead of Schedule A.

## Lump-Sum Benefits

**Screen:** If the taxpayer received lump-sum Social Security benefits for earlier years, and a portion should be reported on this return, open screen **3** and click the **Lump Sum Benefits** link to open screen **LSSA** for Lump-Sums Social Security Distributions. Complete any necessary fields, and the program generates the required Lump-Sum Benefits worksheets (“Wks SSB-2” or “Wks SSB-3”). Screen **LSSA** is also available from the **Income** tab of the **Data Entry Menu**.

See Pub. 915 for details on Social Security lump-sum benefits



Override the amounts calculated on the Lump Sum Benefits worksheets using the two line 6a override fields – “Lump-sum benefits earlier years” – on screen **3**. (The applicable Lump Sum Benefits worksheets are *not* generated if the override fields are used.)

## Form RRB-1099-R, Railroad Benefits

**Screen:** To enter data from the federal RRB-1099-R form, use the **RRB** screen (located on the **Income** tab of the **Data Entry Menu**). This screen reflects the federal form, and data should be entered as it appears on the form itself.



Railroad Retirement Board *Payments* are *not* classified as Railroad Retirement *Benefits*. Payments should be reported on the **SSA/RRP** screen.

## 501(c)(18) Contributions

**Screen:** Enter contributions to a 501(c)(18) pension plan on line **24f** screen **4**, but do *not* include amounts that have been assigned Code H (“Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan”) in box 12 of screen **W2**. Those amounts flow automatically from the **W2** screen to line 24f of Schedule 1.

## IRA Contributions

**Screens:** For *traditional* IRA contributions, use the **8606** screen, which addresses Part I of Form 8606, Nondeductible IRAs. For *Roth* IRA contributions, use the **ROTH** screen, which addresses Parts II and III of Form 8606.

Both the **ROTH** and **8606** screen are accessible from the **Adjustments** tab of the **Data Entry Menu**.

Deductible IRA contributions are calculated from the **8606** screen and displayed on the “IRA deduction” line (line 20) in the “Adjustments to Income” section of Schedule 1. If an amount is entered into the **IRA Deduction** field on screen **4**, it is combined with the amount from the **8606** screen.

If a taxpayer is covered by a pension plan, use the **8606** screen instead of screen **4**. If the program determines that the contribution amount exceeds the maximum allowed, it generates a Return Note with the return.



If Form 8606 is not required but you want to generate it anyway, go to the **8606** screen and select **Print Form 8606 even if not needed**.

## Inherited IRA

**Screen:** If the taxpayer had an inherited IRA, mark the **Inherited IRA** check box for screen **8606**. The program then tracks the basis of this IRA separately from any other IRAs the taxpayer has and produces a separate Form 8606 for the inherited IRA.

## Converting to a Roth IRA

**Screen:** To report the transfer of an *amount* from a traditional IRA to a Roth IRA, enter the amount on the **ROTH** screen ([Figure PER-25](#)). This amount flows to the appropriate line of Form 8606.

Figure PER-25: **ROTH** screen used for converting to a Roth IRA

The screenshot shows the 'Form 8606 - Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distribution' screen. At the top, there are dropdown menus for 'TS' and 'ST'. Below them is a link to 'Video: ROTH Distributions and Rollovers'. The main area is titled 'Part II - Conversions from Traditional IRAs to ROTH IRAs'. It contains two lines for input: '16 Amount of traditional IRA converted to a Roth IRA...' and '17 IRA basis before conversion...'. Both lines have a right-pointing arrow indicating they lead to other screens.

**Screen:** If a 1099-R *distribution* was converted to a Roth IRA and should be excluded from income, indicate so by selecting **C – IRA converted to Roth IRA** from the **Rollover or conversion into another account** drop list. (See [Figure PER-26](#)). Selecting this option automatically carries the **Taxable amount** or **Partial rollover or conversion amount** to line 16 of Form 8606, eliminating the need to make partial distribution conversion adjustments on screen **3**.

Figure PER-26: Distribution Rollover Fields

The screenshot shows the 'Rollover and Conversion Information' screen. It features a dropdown menu with 'C' selected, labeled 'Rollover or conversion into another account'. Below it is a text input field containing '2500' with the label 'Partial rollover or conversion amount'. To the right of the input field is a blue link labeled 'SCH'.

## IRA Penalty Computations

**Screen:** IRA penalties are calculated using data entered on screen **5329** (Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts).

## Carrying 1099-R Data to Form 5329

**Screen: 1099** It might not be necessary to enter data directly onto screen **5329**.

If a distribution code of **1** ("Early (premature) distribution, no known exception") has been selected from the **Dist. code** (box 7) drop list of the **1099** screen, you can force the distribution amount from a **1099** screen to flow to Form 5329 and have the taxable amount of the distribution subject to the 10% penalty. To do so, go to the desired **1099** screen and select the check box **Carry this entry to Form 5329 ...** under the **Additional Information for this Distribution** section (figure right).

### Additional Information for this Distribution

1099-R for disability  
 If so, reported as wages on the 1040? [SCH](#)  
 Carry data on this screen to [Form 5329](#) and compute 10% penalty or exception  
 Exclude here - Distribution is reported on [Form 4972](#)  
 Exclude here - Distribution is reported on [Form 8606](#) [ROTH](#) [Form 8915-F](#)  
 1099-R altered or handwritten  
 Do not update screen to 2024  
 No distribution received (ignore screen)

To access the **5329** screen directly from the **1099** screen, click the **Form 5329** link. To force the program to generate Form 5329, mark the **Force 5329** check box on screen **5329**.



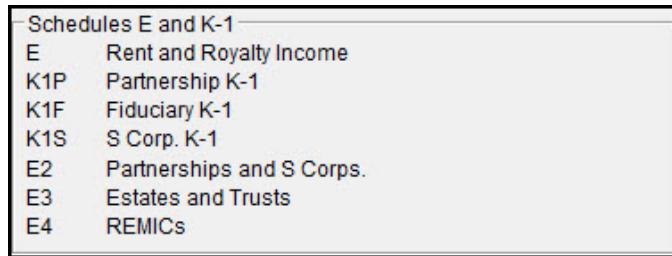
- If no amount is entered in Parts I – IX of screen **5329**, Form 5329 is not generated even if the **Force 5329** box is selected.
- If a penalty applies and no known exception exists, Form 5329 is not required. In this case, the program computes the penalty and sends it to line 8 ("Additional tax on IRAs or other tax-favored accounts") of Schedule 2 but does not generate Form 5329.

## Exception Numbers

Refer to the IRS instructions for details on which exception numbers apply to the taxpayer's situation. To view full descriptions of each exception number, click inside the **Exception number** field (under the **Part I** section) on screen **5329** and press F1.

## Supplemental Income

Links for Schedule E and K-1 screens are located in the **Schedules E and K-1** section of the **Income** tab of the **Data Entry Menu** ([Figure PER-27 on page 84](#)).

Figure PER-27: Schedules E and K-1 Screens from the **Data Entry Menu**

## Schedule E

**Screen:** Enter information on rental property on the first tab of the **E** screen, **Property Info**. Property usage for fair rental and for personal purposes, and income derived from rental property, is entered on the **Income/Expenses** tab (Figure PER-28).

Figure PER-28: **Income/Expenses** Tab of Screen E

Property Info.		Income/Expenses		Prior-Year Compare	
<b>Schedule E - Rental</b>					
2	Fair rental days.....	300	Personal use days.....	65	
<b>Income</b>					
3	Rent income.....	45000			
4	Royalties from oil, gas, mineral, copyright, or patent.....				

## Completing Schedule E

Use fields on the **Property Info** and **Income/Expenses** tabs to complete page 1 of Schedule E (“Part I- Income or Loss From Rental Real Estate and Royalties).

Page 2 of Schedule E (Parts II through V) is calculated from entries on the **K1P**, **K1F**, and **K1S** screens.



The corresponding screens for screens **K1P**, **K1F**, and **K1S** in Drake Tax are **E2**, **E3**, and **E4**, where “E[#]” represents the respective Part of Schedule E. Use screens **E2**, **E3**, and **E4** only if transcribing information from a previously calculated Schedule E.

## Passive and At-Risk Carryforwards

In the **Passive/At-Risk carryforwards from 2022** section of the **Property Info** tab of screen **E** is a column for **Regular Tax Pre-2018**. Put in this column the portion of any prior-year unallowed passive loss carryovers entered in the **Regular Tax Total** column that is being carried forward from 2017 or earlier.

## Property Usage

Item **2** on the **Income/Expense** tab of screen **E** contains fields for indicating how much a property was used for rental and how much for personal purposes.

## Schedule E Expenses

Expenses incurred from a rental property are entered on the **Income/Expenses** tab of screen **E** in the **Expenses attributable to rental unit** column. For multi-occupancy units, such as a duplex in which the owner lives in one unit and rents out the other unit, enter the expenses related to *only* the rental unit in the **Expenses attributable to rental unit** column, and enter expenses related to the *entire* property in the second column, **Expenses attributable to entire property**. (See red box in [Figure PER-29](#).) Be sure to enter the occupancy percentage in the **Taxpayer or spouse occupancy percentage** field at the top of this column.

Figure PER-29: Expenses for Entire Property on **Income/Expenses** Tab of Screen **E**

Property Info.		Income/Expenses		Prior-Year Compare	
<b>Schedule E - Rental</b>					
2	Fair rental days.....	300	Personal use days.....	65	
<b>Income</b>					
3	Rent income.....			45000	
4	Royalties from oil, gas, mineral, copyright, or patent.....				
<b>Expenses</b>					
<p>If the property is a multi-occupancy unit, like a duplex, enter the percentage of the unit occupied by the taxpayer or spouse. Use the first column for expenses related only to the rental portion. Use the second column for expenses related to the entire property. The program limits the expenses based on the occupancy percentage entered for the taxpayer or spouse.</p>					
<p>Taxpayer or spouse occupancy percentage.....</p>					
<p>For most rental activities, use ONLY the first column. The program limits the expenses based on the number of personal use days.</p>			<b>Expenses attributable to rental unit</b>	<b>Expenses attributable to entire property</b>	
5	Advertising.....	300			
6	Auto and travel.....	<a href="#">AUTO</a> <a href="#">+/-</a>			
7	Cleaning and maintenance.....	1500		2000	
8	Commissions.....				
9	Insurance.....	1000		2500	
10	Legal and other professional fees.....				
11	Management fees.....				
12	Interest - mortgage.....	<a href="#">Form 1098</a> <a href="#">+/-</a>			
13	Interest - other.....				

There are **Override program calculation** fields for every expense except line 18 (see “Note,” following) on the **Income/Expenses** tab. These overrides are limited to the sum of the **Expenses attributable to rental unit** (“direct expenses”) and **Expenses attributable to entire property** (“indirect expenses”) columns for that expense.



Drake Tax does *not* recommend using these override fields.

## — Line 18 —

Line 18 on the **Income/Expenses** tab is divided into three fields: **Depreciation ONLY**, **Depreciation adjustment (AMT)**, and **Depletion**. The two depreciation fields are adjustment fields, but **Depletion** is an override field, allowing you to override amounts flowing to the return from the “Oil and Gas Depletion” worksheet (screen **DEPL**; “Wks DEPL” in View/Print mode.)



The program produces one Form 4562 for each property on Schedule E.

## Forms 1099 Reporting

The **Property Info** tab of screen **E** includes check boxes for indicating **(A)** if any Forms 1099 were required to be filed, and **(B)** whether the required Forms 1099 were—or will be—filed ([Figure PER-30](#)).

Figure PER-30: Form 1099 Reporting on Schedule E

Property Info.   [Income/Expenses](#)   [Prior-Year Compare](#)

**Schedule E - Rental**

TSJ   F  ST  FL  City  PAN  PPP2  DC  HI  MA  PA

Property description for reporting..... **BAY HOUSE**

Treat this ENTIRE activity as:

<input checked="" type="checkbox"/> Active rental real estate (default) (A)	<input type="checkbox"/> Other passive (B)
<input type="checkbox"/> Real estate professional (C)	<input type="checkbox"/> Nonpassive (D)

Address and Type of Property

**NOTE: Answer questions A and B on the first Schedule E screen ONLY.**

**A** Did the taxpayer make any payments in 2023 that would require filing Forms 1099?  Yes  No

**B** If “Yes,” did or will the taxpayer file all required Forms 1099?  Yes  No



- If more than one Schedule E is required, questions **A** and **B** should be answered on *only* the first screen **E**.
- To have amounts from Schedule E or from screen **4835** flow to Form 8960, line 4b, mark the **Carry to 8960 line 4b** check box on the **Property Info** tab of screen **E** or on screen **4835**.

- Generally, a depletion deduction flows to either the “Depreciation expense or depletion” line on Part I of Schedule E or to Part II. When there are royalties income from oil and gas, that depletion deduction is subtracted from the royalties income and shown on Part I of Schedule E. Marking the **Oil and gas partnership** check box on screen **K1P** (or an **Oil and gas corporation** check box on screen **K1S**) forces the depletion deduction to stay on Part II of Schedule E.

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## Prior-Year Comparison

So you can see the difference between income received and expenses paid from 2022 to 2023, Drake Tax generates a Schedule E Comparison worksheet (“Comparison Sch E” in View/Print mode). On screen **E**, select the **Prior-Year Compare** tab, and enter income and expenses from 2022. This tab is completed automatically for returns with Schedule E data updated from Drake Tax 2022. To prevent the comparison worksheet from being generated, delete the **Prior-Year Compare** tab. (Press **CTRL+D**.)

In View/Print mode, the Schedule E Comparison worksheet shows you what was earned and spent for the applicable rental property in 2022 and 2023, the difference between the two, and what flows to the taxpayer’s 2023 tax return after deductible losses (Form 6198) and passive activity loss limitations (Form 8582) are calculated.



The Schedule E Comparison worksheet is for your records and is not part of the e-file transmission.

## General Property Information

Information entered in the **Property description for reporting** field at the top of the **Property Info** tab appears in the headings of all generated worksheets associated with the activity.

The following fields are also located on the **Property Info** tab of screen **E**:

- **Activity Type** — **Active rental real estate** is the default selection. If **Nonpassive** is selected and EIC is involved, the program prints “NPA” on the appropriate line of Schedule E. For more on selecting activity types, see [“Activity Types” on page 91](#).
- **Address and Type of Property** — Enter the property address in the fields provided, and select the property type from the options below those fields. If using a property type of **8 — Other**, type a brief (20 characters or fewer) description of the property type.
- **Property was disposed of in 2023** — Mark this box if the property was sold or otherwise disposed of in the current tax year.



If the property was 100% disposed of and the **If sold** section of a **4562** screen has been completed, the program automatically determines if the disposal was at an overall loss or gain and prepares Form 8582, Passive Activity Loss Limitations, and its worksheets accordingly.

- **This is taxpayer's main home or second home** — Select this box if the property is the taxpayer's main or second home. If personal use is indicated by an entry in the **Personal use days** box on line 2 of the **Income/Expenses** tab, and the **This is taxpayer's main home or second home** box is marked on the **Property Info** tab, mortgage interest flows to Schedule A. (See ["Property Usage" on page 85](#).)
- **Qualified Joint Venture** — Mark this box to indicate that a taxpayer owned a property as a member of a qualified joint venture that is reporting rental income not subject to self-employment tax.
- **Some investment is NOT at risk** — Mark this box if portions of the real-estate investment are not at risk. To enter data for computing deductible profit or loss from at-risk activities, click the **Form 6198** link to open the **6198** screen (for Form 6198, At-Risk Limitations).
- **Operating expenses carryover** — Enter the amount of operating expenses that is carried forward from 2022 that could not be deducted in 2022 because this property was also used as a home. An entry in this field flows to the Schedule E- Rental Limitation on Deductions When Used for Personal Use worksheet (listed as "Wks Sch E Personal" in View/Print mode).
- **Ownership percent** — Enter the percentage of ownership. If a percentage is entered here, the *full amount* of rent income and royalties received on behalf of the rental, along with any expenses attributable to the rental unit/entire property, must be entered on Schedule E so the program can calculate the correct amounts in accordance with the ownership percentage. Amounts for Form 4562 must be prorated.
- **To use the Tax Court method...** — Mark this check box to use the Tax Court method to calculate the amount of mortgage interest and taxes for this rental property. If the number of days owned is not 365, mark the check box and enter the correct number of days in the override text box. (If the text box is left blank, the program uses 365 as the default.)
- **Electing out of Business Interest Expense Limit** — Select this box if electing out of the business interest expense limitation under Section 163(j) for this trade or business. This election must be selected for each activity, and a statement is required. (See field help.)



The program uses the **Taxpayer or spouse occupancy percentage** entered on the **Income/Expenses** tab for calculating the business percentage of expenses and taking deductions. The remaining percentage of taxes entered flows to Schedule A. Mortgage interest flows to Schedule A only if the **This is taxpayer's main home or second home** box is marked on the **Property Info** tab of screen **E**.

## Sale of Property

If a property was sold and reported on screen **4797** (Form 4797, Sales of Business Property) instead of on screen **4562**, the proper Schedule E must be associated with the proper **4797** screen. Use a passive

activity number (PAN) code to tie them together. Enter a number in the **PAN** box at the top of the **Property Info** tab of screen **E**, and then enter the same number in the **PAN** box of the applicable **4797** screen.

The **For** and **MFC** fields are for associating the sale with the appropriate form for QBI deduction purposes. If the gain or loss on the sale is ordinary income, it is automatically included in the QBI calculation. (See ["Qualified Business Income" on page 123](#) for additional information on QBI in Drake Tax.)

## Rental of Personal Property

**Screen:** Enter *income* from “casual” rental of personal property on screen **3** in the **Personal property rental income** field. This amount is part of the total of “Additional Income” printed at the bottom of Schedule 1, page 1, that flows to line 8 of Form 1040.

**3** Enter *expenses* from “casual” rental (if any) on screen **4** in the **Deductible expenses related to income from the rental of personal property...** field. Do not use screen **E** for these entries. These expenses flow to the second page of Schedule 1 in the “Adjustments to Income” section and are part of the “...These are your adjustments to income” line at the bottom of Schedule 1, page 2.

## QBI Deductions

**Screen:** A noncorporate taxpayer who has qualified business income (QBI) from any trade or business (not W-2 wages), including income from a pass-through entity, might be allowed to deduct up to 20% of that income from their taxable income.

**E** For QBI deductions from Schedule E income, open screen **E** and complete the **Qualified Business Income (QBI) Deduction** section. Note that the **This activity is a trade or business** drop list is a required field. If screen **E** is used, you must select either **Yes** or **No**, as applicable.

For more information on QBI deductions, see ["Qualified Business Income" on page 123](#).

## — Specified Service Trade or Business —

In rare circumstances, a rental activity should be designated as a “Specified service trade or business” (SSTB). This could occur when the property is rented to an SSTB and the same person or group of persons owns 50% or more of both the SSTB and the rental activity. If this is the case, mark the **Rented to a “specified service business”** check box. See ["Specified Service Trade or Business" on page 56](#), or press F1 in the **Rented to a “specified service business”** check box to view details on what constitutes an SSTB.

## — Safe Harbor —

The **Meets Section 199A rental “safe harbor”** drop list on screen **E** (and on screen **4835**, Farm Rental Income) allows a preparer to indicate when a rental activity qualifies for the safe harbor described in

Revenue Procedure 2019-38. Preparers can indicate either that the rental qualifies as a single activity or as part of a group, and the required statement is printed with the return.

For more information on QBI deductions, see ["Qualified Business Income" on page 123](#), or see IRC Sec. 199A(d).

## Schedule K-1

Screens:  
**K1P**, **K1F**,  
**K1S**

Screens for Schedule K-1 are accessible from the **Income** tab of the **Data Entry Menu**. The program contains **K1** screens for three types of income: **K1P** for partnership income; **K1F** for fiduciary income; and **K1S** for S corporation income. Enter information directly into a **K1** screen or import K-1 information from a pass-through entity into an individual return. (See ["K-1 Exports" on page 94](#).)



The **K1P** and **K1S** screens include **6198 At-Risk** tabs and a **Pre-2018 At-Risk** tab for tracking partner or shareholder at-risk basis before and after 2018. For more information on using these tabs, see ["Tracking At-Risk Basis" on page 98](#).

## Accessing K-1 Data Fields

Two screens are used to complete the lines on a Schedule K-1 (red circle in [Figure PER-31](#)) from an S corporation or partnership.

When a **K1** screen is opened, the first “page” of the selected **K1** screen is displayed. From the **K1P** screen, click the **1065 K1 12-20** tab to complete lines 12 through 20. (From a **K1S** screen, select **1120S K1 11-17** to complete lines 11-17.)

Figure PER-31: Tabs on Screen **K1P**



- If the **General partner** check box is marked on the **K1P** screen, self-employment income is automatically reduced by any amount entered in the **Section 179 deduction** field.
- Unreimbursed partnership expense (entered on the **1065 K1 12-20** tab of screen **K1P**) flows to a separate line on Part II, Schedule E.

## Additional Entries

The **Additional Entries** tab ([Figure PER-32](#)) on the K-1 source screens (**K1P**, **K1S**, and **K1F**) offers 40 fields for entering additional K-1 items.

Make selections from the **Box/Code** drop lists and enter amounts that correspond to the **Box/Code** selections in the **Federal** and **State** columns.

Figure PER-32: Additional Entries Tab on Screen **K1P**

1065 K1 1-11	1065 K1 12-20	Add'l entries	Basis Wkst	Basis W
<b>Schedule K-1 for 1065 (Additional Entries)</b>				
<b>Box/Code</b>	<b>Federal</b>	<b>State (if different)</b>		
11 A	1569			
11 B	2580			
<input type="button" value="▼"/>				
11 A - Other portfolio income (loss) 11 B - Involuntary conversions 11 C - 1256 Net Gain/Loss 11 E - Cancellation of debt 11 E1 - Cancellation of debt (passive)				

## Activity Types

Screens **K1P**, **K1F**, **K1S**, **E**, **E2**, **E3**, and **4835** feature check boxes used for designating an activity as passive or nonpassive. The selection controls what income data, if any, goes to Form 8582, Passive Activity Loss Limitations. Available activity types are described in [Table PER-3](#).

Table PER-3: Activity Type Check Boxes for Screens **K1P**, **K1F**, **K1S**, **E**, and **4835**

Activity Type	Description
A – Active rental real estate	Rental real estate activity <i>with active participation</i> . Calculation flows to the “Rental Real Estate Activities With Active Participation” section in Part I of Form 8582 and to Part IV. (This is the default selection for screens <b>E</b> and <b>4835</b> .)
B – Other passive activity	Passive activity that the taxpayer <i>did not materially participate in</i> during the tax year. Calculation flows to the “All Other Passive Activities” section in Part I of Form 8582 and to Part V.
C – Real estate professional	Activity is that of a real estate professional and does not flow to Form 8582.
D – Nonpassive activity	Activity is not a passive activity; calculations from applicable screens do <i>not</i> flow to Form 8582. (Option available on screens <b>K1</b> and <b>E</b> only.) This is the default selection for screens <b>K1P</b> , <b>K1F</b> , and <b>K1S</b> .

If **A** or **B** is selected, the activity is considered a current passive activity because "A" is rental real estate and "B" is other passive activity.

## State K-1 Amounts (If Different)

By default, the program uses the federal K-1 amounts for both federal and state calculations.

In cases where state K-1 amounts differ from federal K-1 amounts (such as when a state does not take the federal limits on depreciation), enter the state amounts in the **State** column fields of a **K1** screen (circled in [Figure PER-33](#)).

Figure PER-33: State Schedule K-1 Amounts on **K1S** Screen

Amounts from K-1	Federal	State (if different)
1 Ordinary income (loss).....		
2 Rental real estate income (loss).....		
3 Other rental income (loss).....		
4 Interest income.....		
Self-charged interest not entered above.....		

## Multiple States

In some cases, an entity issues Schedules K-1 for multiple states, requiring the preparer to enter two or more amounts for the same state K-1 items.

To enter federal and state K-1 information where multiple state K-1s are issued:

1. Enter all information for federal and the first state on the applicable K-1 screen (**K1P**, **K1S**, or **K1F**). (Enter data in the **State** column only if the state amount differs from the federal.)
2. Press PAGE DOWN to start a new K-1 screen.
3. In the **F** text box at the top of the new K-1 screen, type 0 (zero) to exclude the information on this screen from the federal return, and from the **ST** drop list, select a new state for the second K-1 screen (item #1 in [Figure PER-34 on page 93](#)). "NC" (North Carolina) has been selected in the following example.

Figure PER-34: K-1 Data for Multiple States

4. Complete all applicable fields. Basic information, such as ID number and name, must be re-entered. Because the program does not use the entries on this screen for federal purposes, it is not necessary to enter the federal amounts; however, all applicable state amounts are required, even if they are identical to the federal amounts entered on the previous K-1 screen.
5. Click the linked tab at the top of the screen for the next “page” of the second K-1 screen (item #2 in [Figure PER-34](#)) and continue entering state amounts.
6. *(if applicable)* Complete the **For State Use Only** fields on the second tab of the second K1 screen.

To enter data for another state, repeat steps 2 through 6.

## Form 8960 Entries

The section for Form 8960 entries ([Figure PER-35](#)) is used for entering amounts that you want to flow to Form 8960, Net Investment Income Tax.

Figure PER-35: Form 8960 Section of **K1P** Screen

**Form 8960 Entries**

All amounts entered here flow directly to the line indicated on Form 8960. They do not flow to any other form.

Line	Description	Amount
4b	Adjustment for non-section 1411 trade or business.....	+/- <input type="text"/>
5b	Disposition of property not subject to net investment income tax.....	+/- <input type="text"/>
5c	Adjustment from disposition of partnership interest or S corporation stock.....	+/- <input type="text"/>
6	Changes to investment income for certain CFCs and PFICs.....	+/- <input type="text"/>
7	Other modifications to investment income.....	+/- <input type="text"/>

Access this section by clicking the **1065 K1 12-20** tab at the top of the **K1P** screen, the **1041 K1 12-14** tab at the top of the **K1F** screen, or the **1120S K1 11-17** tab at the top of the **K1S** screen.

The fields in this section are adjustment fields that add to or subtract from the calculated amount of Form 8960 by whatever adjusting amount you enter.

The new calculated amount appears on Form 8960 and worksheets are generated to show the calculations. For more, turn to ["Net Investment Income Tax" on page 144](#).

## Qualified Business Income Deduction

For information on completing the fields in the **Qualified Business Income Deduction** section of screen **K1P (1065 K1 12-20 tab)**, go to ["Qualified Business Income" on page 123](#).

## K-1 Exports

Schedule K-1 data can be *exported from* a partnership, S corporation, or fiduciary *into* a 1040 return through the K-1 Export feature.



The K-1 Export feature sends K-1 data from S corporation, partnership, or fiduciary returns into the K-1 "source" screens (**K1S**, **K1P**, **K1F**) in the Drake Tax 1040, 1120, 1120S, 1065, and 1041 packages.

### — Exporting K-1 Data —

To export K-1 data, you must first have the following items:

- A pass-through entity return (1120-S, 1065, or 1041) in Drake Tax with Schedule K-1 data included
- A 1040 return in Drake Tax for each shareholder, partner, or beneficiary listed in the entity's return (1120-S, 1065, or 1041) that will receive a Schedule K-1 from the entity

To export K-1 data into an individual return:

1. Open the 1120-S, 1065, or 1041 return in Drake Tax that contains the data to be exported.
2. Click **View/Print** from the toolbar (or press **CTRL+V**) to calculate the return and open View/Print mode.
3. Click the **K1 Export** button in the **View/Print** toolbar.

4. If any taxpayer K-1s are not eligible for export, they will be listed on the **Export K1s** window. If the client file cannot be found, confirm that the ID number entered on the applicable K1 screen is correct and that the client file exists. Click **Next** to proceed.
5. The **Export K1s** window (Figure PER-36) lists all taxpayer SSNs and entity IDs for exporting. All rows (except those pertaining to split returns) are selected by default.

Figure PER-36: K-1 Export Feature

TIN	Name	Package
<input checked="" type="checkbox"/> 0	NONRESIDENT ALIEN	Individual
<input type="checkbox"/> 4	SPLIT RETURN GETTIN	Individual (split)
<input checked="" type="checkbox"/> 4	SPLIT RETURN GETTIN	Individual
<input checked="" type="checkbox"/> 5	1120 CORPORATE RAIDERS	Corporate
<input type="checkbox"/> 5	EEVIE FILANOWSKI	Individual (split)
<input checked="" type="checkbox"/> 5	EEVIE FILANOWSKI	Individual

6. (optional) Click a row to clear the check box if you do not wish to export K-1 data to all individuals or entities listed.
7. Click **Export**. When the **Export complete** window is displayed, click **OK** and then **Exit**.




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- Once the export is complete, any state K-1 amounts, if different from the federal, must be entered manually into the target return (the return that the information was exported to). (See ["State K-1 Amounts \(If Different\)" on page 92](#).)
- The Basis Worksheet is *not* exported with the Schedule K-1 information because the basis tracked in the 1065 or 1120-S return is the *inside* basis only. *Outside* basis must be used in the 1040 return in order to apply basis limitations correctly and track carryovers.

---

## Sorting Schedules K-1

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

For more details on sorting K-1s, see the appropriate Drake Tax supplemental manual, available for download through your User Account ([Support.DrakeSoftware.com > Support > Documents](#)).

## Adjusted Basis



(*New York and Kentucky returns*) Before entering data related to a 2020 return in which the adjusted basis calculation may be factored, refer to ["Pre-CARES Act for Decoupled States" on page 58](#). If data entry is necessary, use the **New York and Kentucky returns** link to enter basis worksheet information.

When a return with adjusted basis data is calculated, *losses* entered on screens **K1P** and **K1S** undergo the basis limitation calculation. If any losses cannot be claimed in the current year due to a lack of basis, the portion that is not deducted in the current year is carried forward to subsequent years. Only losses allowed to be claimed in the current year are carried through to the at-risk limitation worksheets and passive loss-limitation calculations, if applicable. To determine the amount of basis the taxpayer has for deducting losses from Schedule K-1, it is necessary to enter the taxpayer's beginning basis on the **Basis (7203)** tab of screen **K1S** (for S corporations) and the **Basis Wkst** tab of screen **K1P** (for partnerships).



On the **Basis (7203)** tab of screen **K1S** is a link to the **Shareholder's Debt Basis Information** screen. Use this screen if the taxpayer made a loan to the S corporation. If there is more than one **K1S** screen, enter in the **K1S Number** field the instance of the **K1S** screen to which the loan information pertains. If there are more than three such loans, from the **Shareholder's Debt Basis Information** screen, press PAGE DOWN to open a new screen.

## Calculating Loss Allocation

Loss allocation percentage is calculated by:

1. Taking the total losses and deductions allowed
2. Dividing the amount of each loss or deduction item by the total allowed loss amount to figure the loss allocation percentage
3. Multiplying the loss allocation percentage by each category of loss applicable to the return

Once these calculations are complete:

- The product flows to column (D), "Allowed Losses and Deductions in Current Year," on page 2 of the Adjusted Basis Worksheet.
- The difference between the total losses and deductions and the allowed losses and deductions flows to column (E), "Disallowed Losses and Deductions in Current Year," on page 2 of the Adjusted Basis Worksheet.

## Prior-Year Unallowed Losses

Enter prior-year unallowed losses in the **Prior-year carryover losses and deductions** column, available on both the **Basis (7203)** ([Figure PER-37](#)) and **Basis, cont. (7203)** tab. The program automatically updates prior-year unallowed losses from the 2022 program.

Figure PER-37: Data Entry Fields for Shareholder's Prior-Year Unallowed Losses

Losses and Deductions	
9 a	Ordinary losses from trade or business.....
b	Net losses from rental real estate activities.....
c	Net losses from other rental activities.....
d	Net short-term capital losses.....
d	Net long-term capital losses.....
e	Other portfolio losses.....
f	Net losses under Section 1231.....
g	Net losses under Section 1256.....
g	Net short-term capital losses (not portfolio).....
g	Net long-term capital losses (not portfolio).....
g	Other losses.....

**Prior-year  
carryover  
losses and  
deductions**  
(a)

=

**Current-year  
losses and  
deductions**  
(b)

## Printed Worksheets

Basis worksheets are generated when the return is calculated. A worksheet consists of two pages: page 1 shows the adjusted basis calculation; page 2 shows the losses and deductions calculation.



You can force page 2 to be printed, even if it does not contain data. To do so, mark the check box **Force the Drake Shareholder's Adjusted Basis Worksheet for losses to be printed** (screen **K1S > Basis (7203)** tab) or **Print page 2 of the basis worksheet** (screen **K1P > Basis Wkst (cont.)** tab).



There are several options for producing and attaching basis worksheets to a return at the bottom of the **Basis, cont. (7203)** tab of the **K1S** screen. Read the field helps for each of the check boxes for more information.

## Updating to Next Year

The following basis information will be updated to the next year's program:

- Adjusted basis amount at the end of the year
- Amounts in the "Disallowed Losses" column of the printed Adjusted Basis Worksheet, page 2

## Tracking At-Risk Basis



*(New York and Kentucky returns)* Before entering data related to a 2020 return in which at-risk basis may be factored, refer to ["Pre-CARES Act for Decoupled States" on page 58](#). If data entry is necessary, use the **New York and Kentucky returns** link to enter at-risk information.

At-Risk Limit Worksheets track shareholder and partner at-risk basis if any amounts not at risk were invested in an activity. This includes nonrecourse financing and amounts protected by a stop-loss agreement. When applicable, the program produces At-Risk Limit Worksheets with the calculated return. In View/Print mode, the worksheets are listed as "Wks K1P At-Risk" (for partnerships) and "Wks K1S At-Risk" (for shareholders). Two copies of the worksheet are printed for each Schedule K-1: one for regular tax and one for the alternative minimum tax (AMT). Use the scroll bar in View/Print mode to see both copies.

Use the **6198 At-Risk** tabs on **K1P** and **K1S** screens to enter data for these worksheets.



Do not duplicate entries from the **6198 At-Risk** screens on the **Basis Worksheet** screens. These are separate limitation calculations.

The top half of the **6198 At-Risk** tab has the following groups of fields:

- **Part I, Profit (Loss) from the Activity** — If the basis worksheet is used, the amount entered there for **Gain from Section 179 asset disposition** flows to line 2b of Form 6198. If the basis worksheet is not used, then this field on the **6198 At-Risk** tab must be used. (If data is entered in both places, then the amount on the **6198 At-Risk** tab is used, as it is an override field.)
- **Part II/III Simplified/Detailed Computations** — If the **Part III Detailed Computation** fields of the screen are used, then the program uses data entered in **Part III** to calculate the amount at risk for these fields. If amounts are entered in this section only, then Part II is used.

The lower portion of the screen has fields for entering prior-year carryover and current-year losses and deductions. Use these fields for the following types of amounts:

- Prior-year losses that were not deductible due to at-risk limitations
- Current-year amounts to override either (a) the equivalent fields on other **K1** screens or (b) the at-risk calculation



- Most of the entries on the **6198 At-Risk** tabs are used for calculating Form 6198, line 4, "Other deductions and losses..."
- To force the program to produce the At-Risk Limit Worksheets even when they are not needed, mark the check box at the bottom of the **6198 At Risk (cont.)** tab.

## Pre-2018 Loss Carryovers

For a taxpayer who is a partner in a partnership and receives a Schedule K-1, open screen **K1P** in Drake Tax. Enter prior-year losses and deductions *incurred before 2018* that were not deductible because the partner did not have enough basis in the partnership to deduct them in a prior year on the **Pre-2018 Basis** tab. On the **Pre-2018 At Risk** tab, enter the pre-2018 losses and deductions that were not deductible because the partner did not have an amount at-risk in the partnership to deduct them in a prior year. (Losses incurred prior to 2018 do not affect the QBI deduction in the year they are allowed and must be tracked separately.)

## Schedule K-3

When Schedule K-2 is generated in either the 1120-S or 1065 package, a copy of Schedule K-3 is produced for each partner or shareholder. This schedule is a breakdown of the partner's or shareholder's portion of foreign transaction income, deductions, credits, etc., indicating on which forms the receiving partner or shareholder should report their share of foreign income.

Use the K-1/K-3 Export feature in View/Print mode to export Schedule K-3 data from a business return into an existing client 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.

# Farm Income

**Screens:** Data entry fields for the following farm-related forms are located under the **Income** tab:  
**F, J, 4835**

- Schedule F, Profit or Loss From Farming (can also be used with a 1065 return)
- Schedule J, Income Averaging for Farmers and Fishermen
- Form 4835, Farm Rental Income and Expenses



- Enter crop insurance and disaster payments for Schedule F and Form 4835 on the **Crop Insurance and Disaster Payments (CIDP)** screen (available from the **Adjustments** tab of the **Data Entry Menu**).
- The Auto Expense Worksheet (**AUTO**) screen can be applied to the **F** and **4835** screens. See ["Auto Expenses" on page 173](#).

## Schedule F, Profit/Loss from Farming

**Screen:** Use screen **F**, accessible from the **Income** tab, to enter data for Schedule F, Profit or Loss From Farming.

### Screen F Defaults

The program's default *accounting method* (item **C**) is *cash*. Select the **Accrual** check box if the taxpayer's accounting method is not *cash*.

The default position for *material participation* (item **E**) is that the taxpayer "materially participated" in the current year. If the taxpayer did *not* materially participate, mark the **Did NOT materially participate in 2023** check box.

The default position for *investments* is that all investments are at risk. If this is not true for your client, select **Some investment is NOT at risk** (line 36b in **Part II - Expenses**).



Normally, amounts from Schedules F do not flow to Form 8960, but if you have Schedule F amounts that you want to flow to Form 8960, mark the **Carry to 8960 line 7** check box on screen **F**.

## Prior-Year Comparison

A Schedule F Comparison worksheet (“Comparison Sch F” in View/Print mode) can be generated in Drake Tax for ease of comparing current- and prior-year figures of Schedule F. If the return was updated from Drake Tax 2022 and had a 2022 Schedule F included, the worksheet is generated by default. For returns created in Drake Tax 2023, or to modify existing prior-year values, navigate to screen **F**, select the **Prior-Year Compare** tab, and edit data as needed. To prevent the comparison worksheet from being generated, delete the **Prior-Year Compare** tab. (Press CTRL+D.) A comparison worksheet is created for each Schedule F with prior-year data.

## QBI Deductions for Schedule F

**Screen:** A noncorporate taxpayer who has qualified business income (QBI) from any trade or business (not W-2 wages), including income from a pass-through entity, might be allowed to deduct up to 20% of that income from their taxable income.

For QBI deductions from Schedule F income, open screen **F** and complete the **Qualified Business Income (QBI) Deduction** section.

See [“Qualified Business Income” on page 123](#) for more information on QBI.

## Special Passive and At-Risk Carryforwards

See [“Pre-2018 Passive Activity Loss Carryovers” on page 57](#) and [“Pre-CARES Act for Decoupled States” on page 58](#), respectively, for more on completing these fields on screens **F** and **4835**.

## Family Health Care Coverage

Enter the total amount paid for self-employed health insurance for the taxpayer, spouse, and dependents in the **Family health coverage payments** field on screen **F**. This amount includes the taxpayer’s out-of-pocket expenses plus any advance payment of the Premium Tax Credit the taxpayer received (in other words, the total of column A on Part III of Form 1095-A).

Deductible amounts flow first to Schedule 1, line 17, “Self-employed health insurance deduction,” and the amount that is not used on Schedule 1 flows to Schedule A, line 1 (“Medical and dental expenses”).



**Do not duplicate Family health coverage payments** entered on screen **F** with those entered on screen **C (Family health coverage)** or **SEHI** (line 1).

## Form 1099-PATR

**Screens:** Enter the distribution amount from Form 1099-PATR, Taxable Distributions Received from Cooperatives, on the **PATR** screen, accessible from the **Income** tab of the **Data Entry Menu** or click the **PATR** link on screen **F**.

You can enter PATR distributions in the **Co-op total distributions** field in the **Part I Income** section of screen **F**, but the **PATR** screen gives you access to all the data fields available on Form 1099-PATR, plus it has:

- A **For** drop list, allowing you to direct the distributions to Schedule C, Schedule F, or Form 4835
- A **Multi-form code** box that allows you to associate one screen with another, such as when one screen **PATR** should be associated with a particular Schedule F (see [“Associating One Screen with Another” on page 27](#) for details on using the **Multi-form code** box)
- A drop list for sending investment credit information to Part II or Part III of Form 3468
- Drop lists for selecting certain other credits and deductions

Mark the **Specified Co-op** check box at the bottom of the **PATR** screen if you are reporting information as a specified agricultural or horticultural cooperative, defined in Section 199A(g)(4)(A) as a cooperative to which part 1 of subchapter T of chapter 1 of subtitle A of the Code applies, that is engaged in either of the following:

- The manufacturing, production, growth, or extraction in whole or significant part of any agricultural or horticultural product
- The marketing of agricultural or horticultural products

## Form 4835

**Screen:** Use screen **4835** to enter data for Form 4835, Farm Rental Income and Expenses. Note that this form is for individual (1040) returns only; estates and trusts must file Schedule E, Part I, to report rental income and expenses from crop and livestock shares.

## Prior-Year Comparison

A Form 4835 Comparison worksheet (“Comparison Form 4835” in View/Print mode) can be generated in Drake Tax for ease of comparing current- and prior-year figures of Form 4835. If the return was updated from Drake Tax 2022 and had a 2022 Form 4835 included, the worksheet is generated by default. For returns created in Drake Tax 2023, or to modify existing prior-year values, navigate to screen **4835**, select the **Prior-Year Compare** tab, and edit data as needed. To prevent the comparison worksheet from being generated, delete the **Prior-Year Compare** tab. (Press **CTRL+D**.) A comparison worksheet is created for each Form 4835 with prior-year data.

## Farm Asset Depreciation

**Screen:** Use screen **4562** (Depreciation Detail) to create depreciation schedules for Schedule F and Form 4835. **4562** From the **For** drop list on screen **4562**, select either **F** or **4835**, as applicable. For more on entering depreciation data, see ["Form 4562" on page 162](#).

## Unemployment Compensation

Unemployment compensation amounts should be entered, as applicable, in the fields described in [Table PER-4](#).

Table PER-4: Entering Unemployment Compensation in Drake Tax

Unemployment Compensation	Where to Enter in Drake Tax
Information from 1099-G	Screen: <b>99G</b> Fields: Box 1 and as applicable
Any prior-year amounts, repaid; to claim repayments  (See Pub. 17 for guidance)	Screen: <b>A</b> Field: <b>Other not subject to 2% limit</b> ; (choose <b>Claim Repayments</b> from the <b>Other Miscellaneous Deductions</b> drop list)
Prior-year supplemental (employer-provided) amounts, repaid	Screen: <b>4</b> Field: <b>Repayment of supplemental unemployment benefits...</b> (Enter the repaid amount.)
Current year, <i>total unemployment compensation</i>	Screen: <b>3</b> Field: <b>Unemployment compensation</b> (adjustment field; added to box 1 screen <b>99G</b> amount)
Current year, <i>repaid 2023 unemployment compensation</i>	Screen: <b>3</b> Field: <b>Portion of above unemployment repaid in 2023</b> (adjustment field; added to screen <b>99G</b> amount)



Note that the **Unemployment compensation** field and the **Portion of above unemployment repaid** field on screen **3** are adjustment fields. Any amounts entered in these fields are added to the amounts from the **99G** screen, then flow to the "Unemployment compensation" line of Schedule 1. Do not duplicate the **99G** entries on screen **3**.

# Other Income

Screen: 3 Other types of income are reported on screen **3**. Amounts entered in the **Schedule 1 - Part 1 - Additional Income** section flow to Schedule 1.

Note that there are several types of income for line 8 covering different specific types of income that the IRS expects to see on line 8, "Other income," of Schedule 1. "Other" income, for Drake Tax purposes, is income that is not reported elsewhere in the program.

When an amount is entered in one of the "Other" (line 8z) fields on screen **3**, the program automatically generates a description when the return is viewed and produces a "literal" (an indicator or abbreviation of associated data) on the form ([Figure PER-38](#)). Such literals might be, for instance, "Taxable Disaster Relief," "RRTA," or "Canada Article XVIII."

Figure PER-38: "Other Income" Literal on Schedule 1

u Wages earned while incarcerated .....	8u	
z Other income. List type and amount: <b>TAXABLE DISASTER RELIEF</b>	8z	1,380
9 Total other income. Add lines 8a through 8z .....	9	1,380
10 Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	42,176
For Paperwork Reduction Act Notice, see your tax return instructions. EEA		
Schedule 1 (Form 1040) 2022		

If more than one item is entered for line 8z on screen **3** (or if more than one item from elsewhere within the program flows to line 8z), the program generates a statement and alerts you with a "Statement [#]" literal. Select the corresponding "Statement" number from the forms tree in View/Print mode to see the listed items.



If you have more than one line 8z "other income" item and, at **Setup > Options > Calculation & View/Print** tab, you selected to **Print only one overflow statement per page**, the statement mentioned above will always be listed as "Statement [#]" for the line 8z literal *and* in the forms tree (with [#] indicating the instance of the statement).

If you did *not* choose to print one overflow statement per page, then several statements will be combined into one form named "STATEMENT" in the forms tree. Use the line 8z literal "Statement [#]" to find the relevant statement within the "STATEMENT" document.

# Taxable Distributions

Following are brief descriptions of how to report distributions from various kinds of tax-free savings plans in Drake Tax.

## Medical and Health Savings Accounts

**Screens:** Enter distributions from Medical Savings Accounts (MSAs) on screen **8853** (Form 8853, Archer MSAs and Long-Term Care Insurance Contracts). Enter distributions from Health Savings Accounts (HSAs) on screen **8889** (Form 8889, Health Savings Accounts (HSAs)). Any portion of the distribution that is taxable flows to Schedule 1 as income; any additional tax goes to Schedule 2, Part 2, "Other Taxes."

Access screens **8853** and **8889** from the **Adjustments** tab of the **Data Entry Menu**.

## Health Savings Account Deduction

**Screens:** Use the **8889** screen, accessible from the **Adjustments** tab, to enter HSA data for Form 8889, Health Savings Accounts. Fields **1** (coverage indications) and **2** (HSA contributions for the year) of this screen are required in order to e-file Form 8889.

## ABLE Account

ABLE (Achieving a Better Life Experience) accounts allow individuals with disabilities and their families to fund a tax-preferred savings account to pay for qualified disability-related expenses.

The annual limitation on contributions is \$17,000. After that limitation is reached, an ABLE account's designated beneficiary can contribute an additional amount, up to the lesser of:

- The federal poverty line for a one-person household
- The individual's compensation for the tax year

**Screen:** Enter excess contributions and the value of the ABLE account at year's end in **Part VIII** in the right-hand column of screen **5329**. The amounts flow to Form 5329. Any additional taxes are included in "Other Taxes" on Schedule 2.

Distributions from the ABLE account are entered on the second of two fields for line 5 in **Part II** of screen **5329**; taxable distributions not subject to additional tax goes on line 6 of **Part II**. These amounts flow to Schedule 1 as "Other Income."

## Form 1099-Q

If the amount on Form 1099-Q, Payments From Qualified Education Programs, *exceeds* the amount of education expenses, compute the taxable amount of the distributions and enter it on screen **5329** (Part II, line 5) *and* as "Other Income" on screen **3**, line 8z.

## Gambling Income and Loss

**Screen: W2G** Use screen **W2G**, accessible from the **General** tab, to enter gambling income information from Form W-2G, Certain Gambling Winnings. Data from screen **W2G** flows to the “Other Income” line of Schedule 1.

Screen **W2G** also contains fields for the following:

- Taxes withheld from winnings
- **Lottery Winnings** or winnings from **Electronic games of skill**
  - Not all states tax winnings from lotteries and electronic games. Press F1 within either field to access further information regarding state treatment of these types of winnings.
- (*professional gamblers only*) Schedule C multi-form codes

Other gambling winnings can be entered in the **Gambling income** field in the **Schedule 1** section of screen **3**.

Gambling losses should be listed on screen **A**, in one of the **Other Miscellaneous Deductions** fields. Select **Gambling losses** from the drop list and enter the amount in the field to the right. Gambling losses include, but are not limited to, the cost of non-winning bingo, lottery, and raffle tickets, but only to the extent of gambling winnings reported as “Other income” on Schedule 1.

## Cancellation of Debt

**Screen: 99C** Use screen **99C**, accessible from the **Income** tab of the **Data Entry Menu**, to enter data from Form 1099-C, Cancellation of Debt. From the **For** drop list at the top of the **99C** screen, select **1040** to indicate a nonbusiness debt and that the debt cannot be excluded from income. If the debt can be excluded from income, choose **982**. (Any discharged debt that is excludable from gross income *must be* reported on Form 982. Click the blue link on right side of screen **99C** to open screen **982**—also available from the **Other Forms** tab of the **Data Entry Menu**.) To signify a business debt that *can* be excluded from income, choose **C, E, F or 4835** from the **For** drop list, as appropriate. The selections, along with the line on the tax return where the canceled debt amount flows, are shown in [Table PER-5](#).

Table PER-5: Cancellation of Debt

“For” Field Item	Where Flows on Tax Return
1040	Schedule 1, Part I, “Cancellation of debt” line
C	Schedule C, Part I, “Other income” line
E	Schedule E, Part I, “Rents received” line
F	Schedule F, Part I, “Other income” line
4835	Form 4835, Part I, “Other income” line

**"For" Field Item**

982

**Where Flows on Tax Return**

Form 982, "Total amount of discharged indebtedness excluded from gross income" line



An entry must be made on **Part I** of screen **982** for screen **99C** values to flow to Form 982.

## Foreign Earned Income

Enter foreign earned income amounts on the applicable income screen (**W2, C, FEC**, etc.; see ["Foreign Employers" on page 40](#)). Foreign earned income is calculated into the "Wages, salaries, tips" line of Form 1040.

### Excluding Foreign Income

**Screen: 2555** If the taxpayer qualifies for the foreign earned income exclusion, use the **2555** screen (accessible from the **Foreign** tab) to complete Form 2555, Foreign Earned Income. The income amount from this screen flows to Schedule 1, where it is then excluded from total income on Form 1040.



- Foreign income must be *included* in total income (via a Form W-2, Schedule C, etc.,) before it is *excluded* from total income using Form 2555.
- The **2555** screen consists of five screens or "pages," accessible by clicking the tab links at the top of the screen. To create a new **2555** screen, press PAGE DOWN.

## Form 965-A, Net 965 Tax Liability

**Screen: 965A** Use screen **965A** to report a taxpayer's net section 965 liability for each applicable year. If the return was updated from Drake Tax 2022, prior-year amounts are brought forward to the 2023 return. If any data is entered on screen **965A**, Form 965-A is generated automatically. Use the following screens to report additional section 965 information as necessary:

- **965C** — Form 965-C, Transfer Agreement Under Section 965(h)(3)
- **965D** — Form 965-D, Transfer Agreement Under Section 965(i)(2)
- **965E** — Form 965-E, Consent Agreement Under Section 965(i)(4)(D)

## Educator Expenses

Screen:

4

Enter educator expenses in the **Educator expenses** field on screen **4**. Teachers, counselors, principals, instructors, and aides of kindergarten – grade 12 who worked at least 900 hours in a school year can take a deduction up to \$300 of education expenses paid by the taxpayer and not reimbursed by the employer. If the taxpayer is filing a Married Filing Jointly return, and the spouse is also a qualified educator, the deduction allowed is a total of \$600.

Qualifying expenses include books, supplies, supplementary materials, and certain software, as well as any Coronavirus preventatives incurred after March 12, 2020, such as personal protective equipment (masks), disinfectant, etc. Qualified expenses do *not* include expenses for home schooling or for nonathletic supplies for courses in health or physical education. Qualified expenses must be reduced by the following amounts:

- U.S. series EE and I savings bond interest excluded from income due to paid qualified higher education expenses
- Any distribution from a qualified state tuition program excluded from income
- Any nontaxable distribution of Coverdell education savings account earnings
- Any reimbursements received that were not reported in box 1 of Form W-2

For more details, search Tax Topic 458 at [irs.gov](https://irs.gov), or see Pub. 529.

## Employee Business Expenses

Screen:

**2106**

Form 2106, Employee Business Expenses, is for certain categories of employee only:

- Qualified performing artists
- Fee-based state or local government officials
- Armed forces reservists
- Employees with impairment-related work expenses

If a taxpayer does not fall into one of those categories, screen **2106** in Drake Tax should be completed only if it is needed for a state return.

The **2106** screen is accessible from the **General** tab of the **Data Entry Menu**.



For employees with impairment-related work expenses, expenses flow from screen **2106** to the "Other Itemized Deductions" section of Schedule A with the literal "Impairment-related work expense." Expenses for the other above-mentioned categories (including "Impairment-related work expenses" if more than one category is selected on screen **2106**) flow directly to Part II of Schedule 1.

## Clergy Expenses

If the taxpayer or spouse is a member of the clergy, mark the **Pastor** check box, located in the right-hand column of screen **2106**—do *not* select any other employee category.

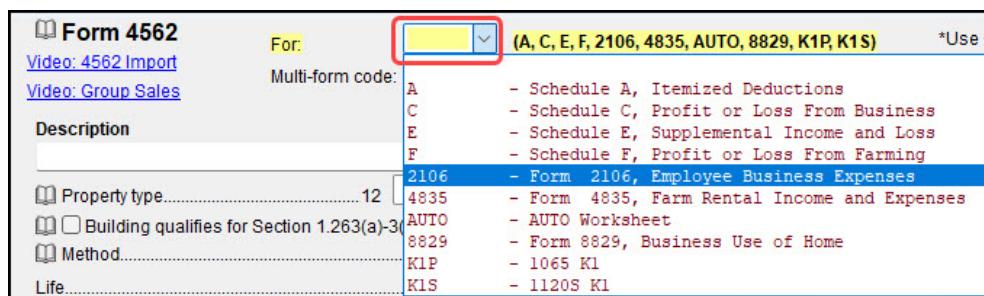
The employee's business expenses flow to the clergy worksheets ("Wks Clergy [#]") when the return is generated. This amount is used to offset self-employed income only and does not flow to Schedule A.

See ["Ministerial Income Allocation" on page 117](#) for more on data entry for clergy.

## Directing Data to Form 2106

To associate the data from a **2106** screen to that of another screen (such as the **4562** screen), select **2106** from the **For** drop list at the top of the other screen ([Figure PER-39](#)).

Figure PER-39: Selecting **2106** from the **For** Drop List on Screen **4562**



Use the **Multi-form code** field as needed. (See ["Associating One Screen with Another" on page 27](#) for more on multi-form codes.)

## Moving Expenses

**Screen:** **3903** Deduct a taxpayer's moving expenses on the federal return only if they are a member of the armed forces on active duty and the move is due to a permanent change of station. If the taxpayer is *not* a member of the armed forces, complete screen **3903** in Drake Tax only if it is needed on the state return.

## Self-Employment Adjustments

**Screens:** Screens **SE** (Self-Employment Adjustment), **SEHI** (Form 7206 – SE Health Insurance), and **SEP** (SE Pensions) are used for entering adjustments related to self-employment income.

## Self-Employment Tax (Schedule SE)

**Screen: SE** Schedule SE is required if net earnings from self-employment exceed \$400 (\$108.28 for church employees). If these conditions are not met, the program does not produce Schedule SE with the return. To “force” the program to print Schedule SE, select the corresponding **Force Schedule SE...** box on the **SE** screen.

Data from Schedules C and F, along with any self-employment income from partnerships, flows to Schedule SE of the return. All other self-employment income should be entered directly on the **SE** screen.



- Use the **Statement for Partner Expenses...** section on screen **SE** to enter certain items deducted from self-employed income that flow to the partner’s “Schedule SE – Allowable Expenses” statement.
- The **Exempt foreign income** fields are for income that was earned in foreign counties and for which self-employment tax was paid to said foreign countries. If the taxpayer or spouse is self-employed in another country and is paying into that country’s self-employment system, then the taxpayer or spouse does *not* have to pay self-employment tax on that income. Attach a copy of a form showing that the tax was paid in the foreign country to the U.S. tax return. The return must be paper filed.

## Income from Church

Indicate on screen **W2** that income from a church is either **C** or **P**. (Select the correct code from the **Special tax treatment** drop list at the top of the screen.) This income flows to the “church employee income” line of Schedule SE. Any income entered on the **SE** screen in the **Service as a minister** or **Wages of church employee...** fields is *added to* the Schedule SE amount. (For more information on entering data for clergy, see [“Clergy” on page 42](#), [“Clergy Expenses” on page 109](#), and [“Ministerial Income Allocation” on page 117](#).)

## SE Health Insurance Deduction



Self-employed pension data entry fields are located on screen **SEP**.

Enter insurance deductions for a self-employed taxpayer in one of following places:

- The **Family health coverage** field of screen **C**
- The **Family health coverage payments** field of screen **F**

- Line 1 of the **SEHI** screen (An entry here overrides system calculations from screen **C** or **F**.)

Be aware that most **SEHI** fields are override fields. Do *not* duplicate entries.

## QBI Deduction

In the **Qualified Business Income Deduction** section of screen **SEHI** or **SEP** (see [Figure PER-40](#)), select from the **For** drop list the form to be associated with the SEHI or SEP deduction. The QBI calculation then flows to Form 8995, Qualified Business Income Deduction Simplified Computation. If there are multiple instances of a particular schedule or form—for instance, if the taxpayer has more than one Schedule C—enter the number denoting which instance of the form this deduction should be associated with in the **Multi-Form Code** field of the **SEP** or **SEHI** screen.

Figure PER-40: QBI Deduction Field on **SEHI** Screen

## Form 7206 (Formerly “SEHID Worksheet”)

Entries on the **SEHI** screen are used to make calculations for Form 7206, Self-Employed Health Insurance Deduction (“Wks SEHID” in View/Print mode). To produce Form 7206, enter the total amount of premiums (including any advance Premium Tax Credit the taxpayer received) in the **Family health coverage** field on the applicable **C** or **F** screen, or line 1 of screen **SEHI**. The final out-of-pocket amount is computed on Form 7206.



For taxpayers who had SEHID and can claim the Premium Tax Credit, the amount of the credit is limited to the amount the taxpayer contributed.

## Self-Employment Pensions

**Screen:** **SEP** **SEP** screen data flows to the Worksheets for Self-Employed Rate and Deduction (“Wks SEP”). To have the program calculate the maximum SEP contribution, enter the plan contribution rate as a decimal on the **SEP** screen.

Use the **Schedule 1, line 16, self-employed...** field if you do not want to use the Worksheets for Self-Employed Rate and Deduction (WK\_SEP) to determine the taxpayer’s maximum deductible contribution (thus ignoring all entries made earlier on screen **SEP**). Data entered in this field flows directly to line 16 of Schedule 1. Use the **For** and **Multi-form code** fields on screen **SEP** to associate

data entered in this field with the appropriate business activity for the purpose of computing qualified business income (QBI).

## Oil and Gas Depletion Worksheet

**Screen:** The Oil and Gas Depletion Worksheet in the 1040 package calculates oil and gas depletion and gives your clients the best possible deduction.

Accessible from the **Adjustments** tab of the **Data Entry Menu**, the **DEPL** screen includes a **For** drop list to direct the calculations to either Schedule C or E, or to the Schedules K-1 for partnerships or S corporations.

There is also a multi-form code (**MFC**) box to associate a **DEPL** screen with the proper schedule. For instance, if a **DEPL** screen should be associated with the second Schedule C you created, enter 2 in the **MFC** box of that **DEPL** screen. To open a new **DEPL** screen, press PAGE DOWN on your keyboard.

## Entering Data

Before you enter any data on a **DEPL** screen, complete all other screens, view the return, and find the amount of “taxable income” on Form 1040. Return to the **DEPL** screen and enter that amount on **Taxpayer’s taxable income before depletion deduction** line. Then, enter the rest of the data, being sure to complete the **TSJ** drop list, **For** drop list and, if needed, **MFC** field. If you enter data in both the **Cost Depletion** section and the **Percentage Depletion** section of the **DEPL** screen, the program calculates the best deduction for your client.

When you have finished entering data, view the return. The Oil and Gas Depletion worksheet (“Wks DEPL”) is listed in the forms tree on the left side of the window in View/Print mode.



- The **Depletion** field on screen **C** is an override field. An entry here overrides the calculated amount from the Oil and Gas Depletion Worksheet. There is also a “Depletion” override field and a link to the **DEPL** screen on the **Income/Expenses** tab of screen **E**.
- Generally, a depletion deduction flows to either the “Depreciation expense or depletion” line on Part I of Schedule E or to Part II. When there are royalties income from oil and gas, that depletion deduction is subtracted from the royalties income and shown on Part I of Schedule E. Marking the **Oil and gas partnership** check box on screen **K1P** (or an **Oil and gas corporation** check box on screen **K1S**) forces the depletion deduction to stay on Part II of Schedule E.

## Section 59e Deduction

If the taxpayer has a section 59e deduction—for instance, a newspaper’s “Circulation Costs” or a mining company’s “Intangible drilling costs”—select that deductible item from the **Other deductions** drop list on a **K1** screen. (On the **K1P** screen, click the **K1 1065 12-20** tab; on the **K1S** screen, click the **1120 K1 11-17** tab.) The amount of that deduction flows to page 2 of Schedule E and Form 6251, Alternative Minimum Tax.

The program also generates a Return Note informing you that if you want to amortize the 59e deduction, go to the applicable **K1P** or **K1S** screen, remove the “Other deduction,” and enter that amount on screen **4562**.

To track unamortized AMT section 59e deductions (for “circulation costs,” “mining costs,” “research and experimental costs,” or “intangible drilling costs”), open screen **59E** (accessible from the **Taxes** tab of the **Data Entry Menu** and from an **Unamortized Section 59e Deductions** link of screen **6251**). The **59E** screen tracks these adjustments as you make them from year-to-year.

## Withdrawal Penalties

This section of the manual covers penalties for *withdrawals*. Penalties on *estimated taxes* are covered in [“Estimated Tax Penalty” on page 151](#).

### Early Withdrawal Penalty

Screen:

**4**

If the taxpayer is subject to a penalty for early withdrawal of savings, enter the **Penalty on early withdrawal of savings** amount on screen **4**. Do not duplicate entries made in this field on the **INT** screen; the 1099-INT form asks for the interest or principal that was *forfeited* due to early withdrawal, while screen **4** asks for the *actual amount* of the penalty.

### IRA Withdrawal Penalty

Screen:

**5329**

Use the **5329** screen, accessible from the **Adjustments** tab of the **Data Entry Menu**, to calculate what penalties apply regarding IRA withdrawals.



Refer to the IRS instructions for details on exception numbers. To view descriptions of each exception number, click inside the **Exception number** field and press F1.

Also see [“IRA Penalty Computations” on page 82](#). See [“Qualified Disaster Distributions” on page 116](#) for information on early withdrawals exempt from penalties due to qualified disasters.

## Alimony Paid

**Screen:** If the amount of alimony paid can be deducted from the taxpayer's income, enter recipient's name, SSN, the date of the divorce, and the amount of alimony paid on screen **4** in the **Alimony paid to** section.

If the divorce or separation agreement occurred after December 31, 2018, and a state requires the alimony amount, enter it and the date of divorce in the prescribed fields. The amounts entered are ignored by the federal return but flow to the state return

For information on entering alimony received, see ["Alimony Received" on page 54](#).

## IRA Adjustments

For details on entering IRA adjustments, see ["Retirement Income" on page 78](#).

## Student Loan Interest Deduction

Enter student loan interest deduction amounts (Form 1098-E, Student Loan Interest Statement) into the **Student loan interest deduction** field on screen **4**.

## Education Expenses

**Screen:** Entry fields for Form 8863, Education Credits, are located on screen **8863**, accessible from the second **Credits** tab. Enter information on that screen about the student and the educational institution the student attended. *All* education expenses—regardless of whether the student is the taxpayer, the spouse, or the dependent—are entered on the **8863** screen.



If a dependent does not qualify for an education credit, Drake Tax does *not* apply this information when calculating the federal return.

## Student and School Information

At the top of the **8863** screen, select the SSN and name of the student from the **Student's SSN** drop list. (Only the taxpayer, spouse, and dependents qualify for this credit and, thus, are the only names on the list.) Answer the questions and enter the qualifying expenses. If more than one **8863** screen is needed (for families with more than one student), press PAGE DOWN to get a new **8863** screen.

Enter the information on lines 23-26 and the qualifying expenses only *once* for each student. If claiming the **American Opportunity Tax Credit**, select the number of years the credit has been claimed from the **Years AOTC taken** drop list. The AOTC is available for no more than four years.

In the lower section of the **8863** screen, enter the information about the school the student attended. If the student attended more than one qualified institution, click the **Additional Educ. Inst.** tab to open the **Additional Educational Institutions** screen. Enter additional educational institutions' information as needed. There are enough fields for information on five additional educational institutions. If more fields are needed, create a second **8863** screen for the same student, completing only as many entries as needed on the **Additional Educ. Inst.** tab.

## Form 1098-T

If the amounts of qualifying expenses came from a Form 1098-T, Tuition Statement, supplied by the educational institution, enter the amount of qualifying expenses, then mark the proper check boxes in the **8867 Due Diligence Requirements** section, located below the educational institution address section of screen **8863**. For an amount received from any taxable scholarship that was *not* reported on a Form W-2, enter the amounts on screen **3**.

## Domestic Production Activities

**Screen:** Form 8903, Domestic Production Activities Deduction (DPAD), cannot be filed with 2023 federal tax returns. Complete screen **8903**, accessible from the **Adjustments** tab of the **Data Entry Menu**, only if it is needed with a state tax return.

Only one Form 8903 can be attached to a taxpayer's e-filed state tax return. To e-file data from multiple 8903 forms on a return, calculate the total for each of the 8903 items and enter the combined totals on the **8903** screen.

## Other Adjustments

Other adjustment-related screens not otherwise covered in this chapter are listed in [Table PER-6](#). These screens are all available from the **Adjustments** tab.

Table PER-6: Other Adjustment Screens Available from **Adjustments** Tab

Screen	Form or Worksheet	Notes
CDIP	Schedule F, Profit/Loss from Farming; Form 4835, Farm Rental Income	Information on payments received for insurance payments from crop damage

Screen	Form or Worksheet	Notes
<b>FDDL</b>	Form 4684- Section D  Election to Deduct Federally Declared Disaster Loss	Complete this screen if selecting to deduct a disaster loss on a tax return for the preceding year. Section D is also used to revoke a previous election to deduct a disaster loss in the tax year immediately preceding the disaster year.
<b>8082</b>	Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)	Use to notify IRS of any such inconsistency between the tax treatment of an item and the way the pass-through entity treated and reported the same item on its return.
<b>8958</b>	Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property States	Use for MFS in a community property state.
<b>8873</b>	Form 8873, Extraterritorial Income Exclusion	Use to report the amount of extra-territorial income excluded from gross income.
<b>BAN</b>	Aggregation of Business Activities	Use to aggregate (combine) businesses for purposes of computing the Qualified Business Income deduction.

## Qualified Disaster Distributions

Taxpayers affected by qualified (FEMA) disasters can withdraw money from qualified retirement plans without paying early withdrawal penalties. The taxpayer can elect to either return the withdrawn amount to the account within three years of the distribution or pay tax on the withdrawn amount over a period of three years—taxpayers also have the option to repay some of the distribution amount and pay the tax on the portion that will not be repaid. For tax year 2023, Forms 8915-C, 8915-D, and 8915-F are used to report qualified disaster distributions, as well as the amount repaid and tax paid on outstanding distributions.

- Form 8915-C, Qualified 2018 Disaster Retirement Plan Distributions and Repayments, is for taxpayers who were adversely affected by a qualified disaster in 2018.
- Form 8915-D, Qualified 2019 Disaster Retirement Plan Distributions and Repayments, is for taxpayers who were adversely affected by a qualified disaster in 2019.
- Form 8915-F, Qualified 2020 – 2023 Disaster Retirement Plan Distributions and Repayments, is for taxpayers who were adversely affected by the Coronavirus (2020 only) and other qualifying 2020 – 2023 disasters.

Taxpayers can take up to \$22,000 in distributions from retirement accounts for *each* qualifying disaster that occurred in 2023.

Screens **915C** and **915D** are located on the **Adjustments** tab of the **Data Entry Menu**. Use the appropriate screen that pertains to the year and form the qualified disaster was reported on. Use screen **915F** (Form 8915-F) to report disasters from 2020 – 2023.

Use screen **915X** (accessed from either the **Adjustments** tab of the **Data Entry Menu** or from the **Form 8915-F – Prior-year Distributions and Repayments** link on screen **915F**) to report prior-year distribution and repayment amounts on a disaster previously reported on Form 8915-F.

If the client's 2022 return was filed using Drake Tax, distribution and repayment information from the 2022 Form 8915-F are updated automatically to the 2023 screen **915X**.

See [Knowledge Base article "18336: 1040 – Form 8915-F – Disaster Distributions and Repayments \(Drake23\)"](#) for more information on entering disaster-related payments in Drake Tax.

## Ministerial Income Allocation

**Screen:** **CLGY** Use the Clergy screen (**CLGY**) for taxpayers with housing allowance in the form of a parsonage, rental, or a parsonage/utilities allowance from the church (generally reported on Form W-2, box 14).



- The **CLGY** screen is for only those taxpayers whose income has been coded **P** from the **Special tax treatment** drop list on screen **W2**.
  - For taxpayers described on Schedule C by business code 813000 ("Religious, grantmaking, civic, professional, & similar") but for whom you do not want to generate "clergy" worksheets, open screen **C** and select **No** from the **Clergy Schedule C** drop list (found on the lower-right side of the screen).
  - For taxpayers who are *not* described on Schedule C by business code 813000 but for whom you do want "clergy" worksheets, select **Yes** from the **Clergy Schedule C** drop list on screen **C**.

The **CLGY** screen allows the following items to be calculated:

- Percentage of tax-free income to be applied to Schedule C expenses marked with business code 813000 ("Wks Clergy 1")
- Percentage of tax-free income to be applied to Form 2106 expenses (the **Pastor - Carry 2106 amount to CLGY worksheet** check box must be marked on screen **2106**) ("Wks Clergy 4")
- Net self-employment income to flow to the Schedule SE ("Wks Clergy 3")

## Parsonage

If a parsonage is provided, enter its **Fair Rental Value**. Be sure to enter an amount in the **Fair Rental Value** field if the house or parsonage (including utilities) is part of a minister's pay. If a separate utility allowance is provided, enter the amount of the allowance in the **Utility allowance, if separate** field and the actual utility expenses in the **Actual expenses for utilities** field.

If data is entered in this section, do *not* complete data entry fields in the following section.

## Rental and Parsonage Allowance

If the church provides a rental or parsonage allowance (but no parsonage), enter the **Parsonage or rental allowance** and the **Actual expenses for parsonage**. If a separate utility allowance is provided, enter the amount of the allowance in the **Utility allowance, if separate** field and the actual utility expenses in the **Actual expenses for utilities** field. Finally, enter the **Fair Rental Value** of the housing used.

If data is entered in this section, do *not* complete data entry fields in the above section.

## Standard and Itemized Deductions

**Screens:**  
**A, STAX,**  
**4952, 8283,**  
**1098**

Based on its calculations, the program determines whether to apply the standard deduction or to generate Schedule A, Itemized Deductions, for a taxpayer. If your client is itemizing deductions, enter descriptions and amounts on any or all of the following screens, as applicable:

- **A** (for Schedule A, Itemized Deductions)
- **STAX** (for sales tax)
- **1098** (for Form 1098, Mortgage Interest Statement)
- **4952** (for Form 4952, Investment Interest Expense Deduction)
- **8283** (for Form 8283, Noncash Charitable Contributions)

Access screen **A** and the **STAX** screen from the **General** tab. Access screens **4952** and **8283** from the **Additional Itemized Deductions** section of the **Adjustments** tab. Access the **1098** screen from the **Other Forms** tab.



The program includes self-employment losses when calculating the standard deduction. To override this default per the Briggs court case, go to the **Miscellaneous** tab, open the **MISC** screen, and select **Standard deduction by Briggs case method**, located in the **Dependent filer special situation** section.

## Schedule A, Itemized Deductions

**Screen:**  
**A** Use screen **A** to enter data for Schedule A, Itemized Deductions, to figure itemized deductions. In most cases, the taxpayer's federal income tax will be less if you take the larger of the itemized deductions or standard deduction. If the taxpayer chooses to itemize, they can deduct part of medical and dental expenses. Amounts paid for certain taxes, interest, contributions, and other expenses, and certain casualty and theft losses can also be deducted.

## Generating Schedule A

By default, the program determines which federal deduction (standard or itemized) is more advantageous for the taxpayer. To override the program's calculation and choose one deduction over the other, mark the applicable **Force** box at the top of screen **A**. Note that the program does not take into account the results of state returns when making this determination.

You can set up the option to have the program generate Schedule A only when it is required. (This option applies to *all* returns.) To do so, go to **Setup > Options > Form & Schedule Options** tab and select **Print Schedule A only when required**. If the above selection has been made from **Setup > Options** and Schedule A is *not* required, the schedule is still generated if the **Force itemized** check box is marked on screen **A**.

From the **PRNT** screen of a return, you can choose to have Schedule A generated with the return—or suppressed—regardless of your global setup option. Click the **Print Options** link at the top of screen **A**, or navigate to screen **PRNT** from the **Miscellaneous** tab of the **Data Entry Menu**. Select **Yes** or **No** from the **Produce Schedule A** drop list.

## Health Insurance

**Screens:** Enter the total amount paid for health insurance premiums on line 1 of screen **A**. If health insurance premiums are entered on screens **C**, **F**, or **SEHI**, do *not* enter them on screen **A**. The amounts entered on screens **C**, **F**, or **SEHI** that are not deductible on Schedule 1 of the 1040 flow to Schedule A.

## Long-Term Care

**Screen:** The **Long-Term Care Premiums (LTC)** screen gives you a place to report the premiums paid in 2023, and for whom they were paid, for long-term health care.

The **LTC** screen is accessible through the **Health Care** tab of the **Data Entry Menu** or from the **Long-Term Care Premiums** link on screen **A**.

If the premiums were paid for the taxpayer or the spouse, enter the amount paid in one of the first two fields on the **LTC** screen. If the premiums were paid for a dependent, select the dependent from the **Long-term care premiums for...** drop list on the left side of the screen. (The dependent's name is filled in automatically.) Enter the amount of the premiums paid in 2023 in the column on the right side of the screen.

The program applies a limit to the deduction based on the age of the person as entered on screen **1** (for the taxpayer and spouse) or screen **2** (for dependents). The amount not deductible on Form 1040 flows to Schedule A.



If the long-term care insurance premiums have been entered on screen **SEHI**, do not enter them on the **LTC** screen.

## Sales Tax Worksheet

### Screen: **STAX**

The program uses data entered on the **State & Local General Sales Tax Deduction Worksheet** (the **STAX** screen, accessible from the **General** tab) to determine which tax is better to take: the state sales tax or the income tax. Lines **1** and **4** of this screen are calculated by the program, but you can enter overrides as necessary. As applicable, lines **2**, **3**, and **7** should be completed in order to calculate the maximum deduction.

More information on the **STAX** screen is available by pressing F1 in the individual fields.



- Check boxes on screen **A** (in the **Taxes Paid** section) allow you to force the program to use income tax instead of sales tax (or vice versa) for line 5 of Schedule A.
- The **STAX** screen includes a link to the IRS website where you can find information and guidance for understanding sales tax deductions and a sales tax deduction calculator.

## SALT Worksheet

Tax reform laws limit deductions for taxes paid by individual taxpayers in the following ways:

- Limits the aggregate deduction for state and local real property taxes, state and local personal property taxes, state, local, and foreign, income, and general sales taxes (if elected) for any tax year to \$10,000 (\$5,000 for Married Filing Separately filers)
- Eliminates the deduction for foreign real property taxes unless paid or accrued in carrying on a trade or business or in an activity engaged in for profit

In Drake Tax, the SALT worksheet ("Wks SALT" in View/Print mode) calculates the \$10,000 (or \$5,000) limit for SALT (State and Local Taxes) to the advantage of the taxpayer. Wks SALT is generated only if the amount of taxes exceeds the respective limit.



If the sales tax plus property tax and real estate tax is at least \$10,000, Drake Tax uses the sales tax for the deduction instead of income tax, even if the income tax is larger. This keeps the taxpayer from having a taxable state refund.

## Mortgage Interest Paid

Use line 8b in the **Interest Paid** section of screen **A** to enter mortgage interest *not* reported on Form 1098, Mortgage Interest Statement. For mortgage interest that *is* reported on Form 1098, use the **1098** screen. (Click the link on line 8a of screen **A**.) Do not duplicate in this field entries made on screen **1098**.



The **Home mortgage interest and points reported on Form 1098** field on screen **A** is an adjustment field; any amount entered is added to or subtracted from the calculated amount from other screens — such as screen **1098** or **E**.

## — State Deductible Interest —

On the *right* side of screen **A**, near the bottom, is the **Home Mortgage Interest** section. Enter in the field the amount of home equity interest that is not deductible on the federal return but can be deducted from a state return.

## Form 1098-C

Enter amounts from Form 1098-C, Contribution of Motor Vehicles, Boats, & Airplanes, on either line 12, [Gifts to charity] **Other than by cash or check**, of screen **A** (if *less than* or *equal to* \$500) or screen **8283** (if *more than* \$500).

## Charitable Contributions

Click the **Charitable Contributions Carried Over...** link on screen **A** to open the **Charitable Contributions Carryovers** screen. Fields on this screen give you a place to keep track of charitable contributions carried over from prior years and are updated automatically when the return is brought forward from Drake Tax 2022.

## “For State Use Only” Section

Some states do not conform to certain sections of the federal Schedule A instructions. For those states *only*, enter data in the **For State Use Only** section of screen **A**. Data entered here flows to the state return automatically. If Form 2106 is also being prepared, the results from Form 2106 flow automatically to Schedule A.

Click in a field and press F1 to see various state regulations.

## Overriding Line 5e of Schedule A

Enter in these fields (lower-right corner of screen **A**) the amount of real estate taxes or personal property taxes for **states** that are being calculated into line 5e of Schedule A. An amount entered here overrides the program's calculations for this field from the SALT worksheet.

## Additional Itemized Deductions

**Screens:** **4952, 8283** Use screen **4952** for data used to calculate Form 4952, Investment Interest Expense Deduction. Use the **8283** screen to enter data for Form 8283, Noncash Charitable Contributions. Calculations from the **8283** screen flow to the "Other than by cash or check" line of Schedule A. There is also a direct entry "Gifts by cash or check" field on screen **A**. Do *not* enter duplicate amounts.



When a **Donee ID** number is entered on the **8283** screen, the program automatically stores the number in the EIN database.

## AMT Taxable State Tax Refunds

Drake Tax performs the calculations needed to arrive at the correct amount of taxable state refund to flow to next year's return when the taxpayer is subject to Alternative Minimum Tax (AMT) in the current year.

A state income tax refund generally must be included in income if the tax was deducted in a prior year. There are times, however, if there was AMT calculated on the return, there was no tax benefit to the state income tax deduction.

If a taxpayer is subject to AMT, has itemized deductions, has a state income tax deduction entered on screen **A**, and has a state refund in the current year, a Return Note is generated with the return.

Drake Tax can perform an iterative or "circular" calculation to arrive at the correct number and carry the proper amount forward to next year.

To perform the calculation, open the **MISC** screen, available from the **Miscellaneous** tab of the **Data Entry Menu** in Drake Tax, and mark the **Tax return complete; compute the taxable state refund** check box.



Wait until the return is complete before marking the **Tax return complete; compute the taxable state refund** check box and calculating the return.

The results of these calculations appear on the "Projected State and Local Income Tax Refund Worksheet" (listed as "Wks Refunds" in View/Print mode). Line 1 of that worksheet is divided into lines 1a, 1b, and 1c in order to show you the calculated amounts.

# Qualified Business Income

**Screens:** Sec. 199A, “Qualified Business Income” (QBI), allows a noncorporate taxpayer—including a trust or estate—who has QBI from any trade or business (not W-2 wages), including income from a pass-through entity, to deduct up to 20% of that income from their taxable income.

**K199, C, E, F, 4835**

Report the Qualified Business Income (QBI) deduction of income from pass-through entities to the taxpayer on screen **K199**, available through links on the **K1** screens or from the **Adjustments** tab of the **Data Entry Menu**.

Drake Tax provides a QBI Explanation Worksheet (available as “QBI Explanation” in the **All Forms**, **Sets**, and **Miscellaneous** tabs of View/Print mode), showing the items and amounts that go into the Qualified Business Income deduction calculation in the event you wish to change the program’s calculated amounts. Override fields on screens **C, E, F, 4835**, and **K199** allow you to override individual calculations.

## Using QBI on K199 Screen

**Screen:** For a taxpayer taking a QBI deduction on income from, for example, a partnership, go to screen **K1P** and click the **1065 K1 12-20** tab. In the bottom-left corner of the screen, click in **K199** link (figure right) to open the **Qualified Business Income (QBI) Entries for Schedule K-1** screen.



In the **For** drop list, select the screen this activity is related to. (For our example in [Figure PER-41](#), we chose **K1P**.) When the taxpayer has QBI information from more than one source to report, identify which Schedule K-1 this activity pertains to using the **MFC** field. If you enter 2, you are indicating the activity on *this* screen **K199** is to be associated with the second **K1P** screen. Use the **EIN** and **Trade or business name** fields to identify each separate trade or business.

Figure PER-41: Screen **K199**

Qualified Business Income (QBI) Entries for Schedules K-1	
NOTE: Use this screen to list the trade or business income for each activity within a partnership, S corporation, or est through on a Schedule K-1. Use the "For" and "Multi-form code" fields to link the activity listed here with the K1P, K1S, K1F, or K1F-2 screen.	
For:	K1P
MFC:	2
EIN:	= 51
Trade or business name:	PARTNERS IN GRIME CLEANING
<input type="checkbox"/> Treat as a "specified service business"	
<input type="checkbox"/> Publicly Traded Partnership	
Business aggregation number (BAN):	
As reported	
Ordinary Income (or loss) from this activity:	15000
Rental Income (or loss) from this activity:	1250
Royalty Income (or loss) from this activity:	545

If the entity is a specified service business, or a publicly traded partnership, mark the appropriate check boxes. (For details, see ["Specified Service Trades and Businesses" on page 125](#), or click inside the **Treat as "specified service business"** check box and press F1.)

If you have another K-1 and Statement A, press PAGE DOWN for another **K199** screen.

For more information on the self-employed health insurance deduction and pension deduction override fields, see ["SE Health Insurance Deduction" on page 110](#).

## Aggregation

Taxpayers engaged in more than one trade or business can choose to aggregate them into a single trade or business for the purposes of calculating the QBI deduction, if they meet the following requirements:

- None of the trades or businesses is an SSTB
- The taxpayer, or a group of persons directly or indirectly, own 50% or more of each trade or business for the majority of the tax year, including the last day of the year, and all trades or businesses use the same tax year end
- The trades or businesses meet at least two of the following factors:
  - Provides products, property, or services that are the same or that are customarily offered together
  - Shares facilities or shares significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources
  - Operates in coordination with, or reliance on, one or more of the businesses in the aggregated group

When aggregating multiple businesses, use the **Business aggregation number (BAN)** field on screen **K199**. Enter the same number to tie multiple screens together. If you do not elect to combine or aggregate the businesses, no entry should be made in the **BAN** field.

## Pass-Through Forms and Worksheets

When taxpayers receive Schedule K-1 from "pass-through" entities (1165, 1120-S, 1041), they also receive a form that includes "Statement A – QBI Pass-Through Entity Reporting," "Statement B, QBI Pass-though Entity Aggregation Elections" (for business entities that have been aggregated), and "Statement C – Pass-Through Entity Reporting – Patrons of Specified Agricultural and Horticultural Cooperatives." Information from these statements is recorded on screen **K199**.

## — Entering Amounts —

Enter the amounts from statements A, B, and C in the fields of the **As reported** column of screen **K199**. Drake Tax provides a “QBI Explanation” worksheet (available in View/Print mode), showing the items and amounts that go into the Qualified Business Income Deduction calculation. In the event you wish to change the program’s calculated amounts, Drake Tax provides override fields—in the **As allowed on 1040...** column—that allow you to override individual calculations.

### Specified Service Trades and Businesses

Specified service trades or businesses are generally excluded from the definition of qualified trade or business.

If the income is from a “Specified Service Trade or Business” (SSTB), the taxpayer could be subject to the income limitations. You must, therefore, mark the **Treat as a “specified service business”** check box, where appropriate ([Figure PER-42](#)).

Figure PER-42: Treating Income as from a “Specified Service Business”

For:	K1P	(K1P, K1S, K1F)
MFC:	2	(1 - 999)
EIN.....	= 5	
Trade or business name.....	PARTNERS IN GRIME CLEANING	
<input checked="" type="checkbox"/> Treat as a "specified service business"		
<input type="checkbox"/> Publicly Traded Partnership		

Press F1 in the **Treat as a “specified service business”** check box to view details on what constitutes an SSTB. See IRC sec. 199A(d) for more information on QBI.

### Cooperative Payments

Fields on the **K199** screen (accessible from the **K199** link on screen **K1P (1065 K1 12-20 tab)**, **K1S** screen (**1120S K1 11-17 tab**), and **K1F** screen (**1041 K1 12-14 tab**) allow you to enter QBI allocable to cooperative payments and W-2 wages allocable to cooperative payments.

Figure PER-43: Payments and Wages from Cooperatives

QBI allocable to cooperative payments.....	10000
W-2 Wages allocable to cooperative payments.....	5000

In the **QBI allocable to cooperative payments** field, enter any income from a trade or business received from a specified agricultural or horticultural cooperative.

In the **W-2 Wages allocable to cooperative payments** field, enter the portion of W-2 wages paid by this business that is allocable to the income entered in the **QBI allocable to cooperative payments** field above.

These entries flow to Schedule D of the Qualified Business Income Deduction Worksheet ("Form 8995-A – Sch D" in View/Print mode).

## Forms 8995 and 8995-A

The IRS provides two forms for reporting aggregation of business operations, allocations of losses, and income from agricultural and horticultural cooperatives: Form 8995, Qualified Business Income Deduction Simplified Computation, and Form 8995-A, QBI Deduction (Complex).

The 8995-A form includes:

- Schedule A, Specified Service Trades or Businesses
- Schedule B, Aggregation of Business Operations
- Schedule C, Loss Netting and Carryforward
- Schedule D, Special Rules for Patrons of Agricultural or Horticultural Cooperatives

There are no data entry screens in Drake Tax for completing either Form 8995 or 8995-A; the tax program completes and generates the form you need. Form 8995 (Simplified) is generated unless either:

- The taxpayer had dividends from an agricultural cooperative
- The taxpayer had taxable income of more than:
  - \$170,050 for Single, Married Filing Separately, Head of Household, or Qualifying Surviving Spouse (but not more than \$220,050)
  - \$340,000 for Married Filing Jointly (but not more than \$440,100)

## QBI Qualified Loss Carryforward Screen

For taxpayers who had a net loss from QBI or a net loss from REIT dividends and publicly traded partnerships (PTP), enter the carryforward amounts on the **8995** screen, available from the **Adjustments** tab of the **Data Entry Menu**. These losses are not tracked separately per business.

If the taxpayer had QBI carried forward from the previous tax year, Drake Tax updates screen **8995** with that carryforward amount.

## Alternative Minimum Tax

**Screen: 6251** Use the **6251** screen, accessible from the **Taxes** tab, to enter information for Form 6251, Alternative Minimum Tax.

## Producing Form 6251

Although Form 6251 amounts are computed on all returns, Drake Tax produces the form itself only when required. You have the option to change the default setting and produce Form 6251 on a per-return basis or for all returns.

### For a Single Return

To produce Form 6251 for a single return, go to the **PRNT** screen of the return (accessible from the **Miscellaneous** tab) and select the **Produce Form 6251** box from the list on the right side of the screen.

### For All Returns

To have the program print Form 6251 for *all* returns, from the **Home** window of Drake Tax, go to **Setup > Options > Form & Schedule Options** tab, and clear the **Print Form 6251 only when required** check box.

## General Health Care Coverage

**Screens:** No health insurance information flows to the 1040 return unless the taxpayer received Form 1095-A, Health Insurance Marketplace Statement, from the health insurance marketplace (or “Exchange”) and that information is entered on screen **8962** or **95A**.

## ACA Forms

The **Health Care** tab on the **Data Entry Menu** includes four screens to help you complete the ACA information and forms ([Figure PER-44](#)).

Figure PER-44: ACA Screens on **Health Care** Tab of **Data Entry Menu**



- **HC** — For 2023, this screen is used only if the taxpayer's dependent was required to file a federal income tax for the 2023 tax year.
- **95A** — Used to report information from a received Form 1095-A and complete Form 8962, which is used to report the calculated amount of Premium Tax Credit and reconcile that amount with any Advance Payment Tax Credit paid.
- **8962** — Used in special circumstances, such as a married taxpayer seeking relief from the requirement to file a joint tax return in order to claim the Premium Tax Credit, a taxpayer moving to or from Alaska or Hawaii during the tax year, or a taxpayer using alternative calculation for year of marriage. (See ["Screen 8962" on page 130](#) for more information.)
- **QSE** — Used to complete worksheets needed to determine the tax implications of a Qualifying Small Employer Health Reimbursement Arrangement (QSEHRA). See the screen help on the **QSE** screen for details.

## Screen HC

**Screen:** Since the Shared Responsibility Payment no longer applies and no health insurance information flows to Form 1040, complete screen **HC** only if the taxpayer's dependents are required to file a federal income tax return for 2023.

(*optional*) If you wish to keep track of whether or not the taxpayer complied with the requirements to have minimum essential coverage, there is a **Notes** text box on screen **HC** for recording this information.

If client's insurance coverage came through the Marketplace (or "Exchange"), complete screen **95A** (and screen **8962**, if applicable). Links are provided on the **HC** screen. (See ["Form 8962, Premium Tax Credit" on page 129](#), ["Form 1095-A,"](#) following, and ["Screen 8962" on page 130](#) for more information on completing these screens.)

## Form 1095-A

**Screen:** If the taxpayer or any family members enrolled at the Marketplace in one or more qualified healthcare policies, that person will receive a Form 1095-A, Health Insurance Marketplace Statement, for each policy. Form 1095-A provides information you need to complete Form 8962, Premium Tax Credit (PTC). Note that the Marketplace reports 1095-A information to the IRS.

Under certain circumstances, the Marketplace provides Form 1095-A to one taxpayer, but another taxpayer may also need the information from that form to complete Form 8962. The recipient of Form 1095-A should provide a copy to other taxpayers, as needed.

Enter on screen **95A** information from Form 1095-A. If the taxpayer, for instance, moved, changed insurance policies, got married, or had children, they might have more than one Form 1095-A. For additional **95A** screens, press PAGE DOWN.

Enter the insurer's information in **Part I** and then select from the **SSN** drop lists the members of the tax household in **Part II**. Each member of the "tax household" entered elsewhere in the program appears in the **SSN** drop list. If there are more than five people in the taxpayer's tax household, press PAGE DOWN for a new **95A** screen.

In **Part III**, if all amounts for all three columns are the same, then complete only line 33, **Annual Totals** (red circle in [Figure PER-45](#)). If you enter an amount in the **Monthly Premium Amount** column, you *must* enter amounts in the fields in the other two columns for that month, even if it is 0 (zero). If entering amounts in columns, do *not* complete line 33.

Figure PER-45: Part III of Screen **95A**

Part III - Household Information			
If Form 1095-A, line 33, "Annual Totals," is completed and the entries for each month are identical, lines 21 through 32 may be left blank.			
	A. Monthly Premium Amount	B. Monthly Premium Amount of Second Lowest Cost Silver Plan	C. Monthly Advance Payment of Premium Tax
21 January.....			
22 February.....			
23 March.....			
24 April.....			
25 May.....			
26 June.....			
27 July.....			
28 August.....			
29 September.....			
30 October.....			
31 November.....			
32 December.....			
33 Annual Totals.....			

Use the **Shared Policy Allocation** section of screen **95A** if the taxpayer had, for instance, a child that the spouse was claiming as a dependent but that the taxpayer was paying for part of the dependent's insurance coverage.

## Form 8962, Premium Tax Credit

The Premium Tax Credit (PTC) is for taxpayers who receive their healthcare insurance through the Marketplace. This credit helps people with moderate income afford the healthcare coverage required by the ACA. In essence, the government pays part of the taxpayer's insurance coverage with an "Advance Premium Tax Payment" (APTC) and the taxpayer covers the rest by paying the monthly premiums.

Form 8962 is included in Form 1040 to compute this tax credit, which, in most cases, is calculated from entries on screen **95A**, not screen **8962**. (See ["Screen 8962" on page 130](#) for more on using screen **8962**).



- Not everyone receives an APTC.
- Anyone who gets their insurance through the Marketplace, receives advance payments, and qualifies for the PTC is required to file Form 8962.
- Do not file the 1040 return until the taxpayer has received Form 1095-A, as it is needed to complete Form 8962.

## Schedule A Deductions

There are two check boxes at the bottom of the **95A** screen. (See [Figure PER-46](#).)

Select the first box to automatically carry all of the taxpayer's net out-of-pocket insurance premiums from Form 8962 to Schedule A, line 1.

If the **If not claiming SEHI deduction...** check box is marked, do *not*:

- Enter net out-of-pocket insurance premiums on any line 1 item of screen **A**
- Claim the deduction for self-employed health insurance

Figure PER-46: SEHI Check Boxes on **95A** Screen

<input type="checkbox"/> If not claiming SEHI deduction, carry all premiums from Form 8962 to Schedule A net of credit
<input type="checkbox"/> The Marketplace premiums on Form 8962 do not qualify as self-employed health insurance

By marking the second box, you are indicating that the healthcare insurance premiums paid to the Marketplace *cannot* be considered for the self-employed health insurance deduction on Schedule 1, line 17. The program will therefore *not* perform the iterative (circular) calculation described in Rev. Proc. 2014-41 to compute the Premium Tax Credit and SEHI deduction.

## Screen **8962**

Screen **8962** is used most often for special circumstances:

- The **Exception ...** check box in Part 1 is for taxpayers who were abandoned or abused by a spouse and wish to claim a Premium Tax Credit even though they are using the MFS filing status.
- The program bases its poverty-level calculations on the federal poverty level for the resident state selected on screen **1**, but if the taxpayer moved during the tax year, select an override check box on line 4 of screen **8962** to have the calculations based on the federal poverty level of **Alaska, Hawaii, or the Other 48 states and DC**.
- **Part 5** of screen **8962** contains fields for changing the calculated amounts for the monthly premiums entered on all **95A** screens. Do *not* use these fields if attempting to use the alternate calculation for the year of marriage; otherwise, the calculation will be incorrect.
- The lines in the optional **Part 5: Alternate Calculations for Year of Marriage** section are for a taxpayer who married during the tax year and whose family size and coverage status changed. (For people who got divorced, go to screen **95A** and use the **Shared Policy Allocation** section.) The **Start month...** drop list is for selecting the month when the taxpayer's insurance policy coverage began, and the second drop list is for entering the earlier of:
  - The month the policy ended
  - The month the taxpayer stopped being single (got married)

- At the bottom of the **8962** screen is a section for repaying Advance Premium Credit payments the taxpayer received for which they were not eligible. Mark the check boxes for the months—if any—during which the taxpayer had available (from another source) affordable minimal essential coverage yet received an Advance Premium Credit payment.

## Foreign Tax Credit

**Screens:** If the amount of Foreign Tax Credit (FTC) is less than \$300 (\$600 for MFJ) and no Form 1116 is required, you can enter this amount in the **Foreign Tax Credit** field on screen **5** ([Figure PER-47](#)).

**5, 1116, 116B, 116C, INT, DIV**

Figure PER-47: Foreign Tax Credits Section of Screen **5**

<b>Schedule 3</b>	
<b>Part I - Nonrefundable Credits</b>	
1	Foreign Tax Credit (If Form 1116 is not required).....
6z	Other credits..... Form <input type="text"/>

For amounts greater than \$300 (\$600 for MFJ), use the **Form 1116/FTC Information** sections of the **INT** and **DIV** screens to enter data regarding foreign interests and dividends, respectively, or use screen **1116**, available from the **Foreign** tab of the **Data Entry Menu**.

Enter Schedule B (Form 1116) carrybacks and carryovers for foreign branch income on screen **116B**. Use the **preceding tax year** links at the top of the screen to navigate to the appropriate tab pertaining to the carryback or carryforward, and enter information in the respective **Preceding Tax Year** column.

Use screen **116C** to complete Schedule C (Form 1116) and identify current-year foreign tax redeterminations that relate to prior years. A separate screen **116C** must be used for each country and for each category of income.

## FTC Code

If an **1116** screen is to be linked with an **INT** or **DIV** screen (for foreign interest or dividends), enter a number into the **FTC** box at the top of the **1116** screen. Enter this same number on the **INT** or **DIV** screen. For more on entering foreign interests and dividends, see [“Foreign Interest and Dividends” on page 50](#).

## Required Statements

A statement could be required with Form 1116. Use the **SCH** screen to attach the statement. From the **Type of Attachment/statement number and title** drop list on the **SCH** screen, select the applicable 1116 item (beginning with item 394).

## Claim FTC without Filing Form 1116

Preparers can choose to globally (for all returns) suppress Form 1116 if the taxpayer meets FTC election conditions.

Mark **Elect to claim FTC without filing Form 1116 when possible** (located at **Setup > Options > Calculation & View/Print** tab) to make the election to claim the Foreign Tax Credit (FTC) directly on Form 1040, Schedule 3, without filing Form 1116 for all qualifying returns. This election is available to taxpayers with less than \$300 of foreign taxes paid (\$600 for MFJ), who only have “passive category income,” and who had all the income and any foreign taxes paid on it reported to them on a qualified payee statement (such as Form 1099-DIV, Form 1099-INT, and Schedule K-1).

Other restrictions apply, and unused FTC cannot be carried forward if this election is made. See the [instructions for Form 1116](#) before marking this option.

To override this option on a per-return basis and either produce or suppress Form 1116 for a single return, from the **ELEC** screen, make a selection from the **Election to claim Foreign Tax Credit without filing Form 1116** drop list.

Foreign Tax Credit amounts not reported on Form 1116 are reported on the “Foreign tax credit” line on Part I of Schedule 3 (Form 1040).

## Child and Dependent Care Credit

**Screens:** Use screen **2441**, accessible from the **General** tab (and from the first **Credits** tab), for Form 2441, **2, 2441** Child and Dependent Care Expenses. Enter data on screens **2441 and 2** for each dependent for whom expenses were incurred.

## No Spousal Income

Generally, if Married Filing Jointly, both the taxpayer and spouse must have earned income to qualify for the childcare credit; however, if an exception applies (one parent is a full-time student for at least five calendar months of the taxable year or is disabled), enter \$250 (for one qualifying dependent) or \$500 (two or more qualifying dependents) for each month the spouse was a student or disabled. This information is entered near the bottom of the **2441** screen in the **Earned income for 2441 purposes ONLY** field ([Figure PER-48 on page 133](#)). The check box **Taxpayer or spouse was a student or was disabled during 2023...**, located at the top of screen **2441**, must also be marked. An entry in this field affects Form 2441 amounts only.

Figure PER-48: No Income for Spouse Field on Screen **2441**

		Taxpayer	Spouse
9b	<a href="#">Worksheet for 2022 Expenses Paid in 2023</a>		
12	Employer-provided dependent care benefits received in 2023.....	=	=
13	Amount carried over from 2022 and used in 2023 during the grace period.....		
14	Amount forfeited or carried forward to 2024.....		
16	Amount of qualifying expenses incurred in 2023.....	=	=
4, 5, 18, 19	<b>Earned income for Form 2441 purposes ONLY.....</b>	+/-	+/-
22	Amount from line 12 that is from taxpayer's sole proprietorship or partnership.....		

## Prior-Year Carryover

Use the **Worksheet for 2022 Expenses Paid in 2023** link to enter data regarding qualified dependent expenses incurred in 2022 but not paid until 2023. When any amount is entered on lines 1 – 11, the IRS Form 2441 Worksheet for 2022 Expenses Paid in 2023 (“Wks 2441” in View/Print mode) is produced, and the result flows to line 9b of Form 2441. If an override is entered on line 13, no worksheet is produced, the amount flows directly to line 9b, and statement **441** must be created using screen **SCH**.

## Employer-Provided Dependent Benefits

Dependent care benefits provided by the employer (box **10** on the **W2** screen) adjust the credit by the amount provided. Any amounts above the allowed credit appear on the “Wages, salaries, tips, etc.” line of Form 1040 with the notation “Excess Allowance.” Dependent care benefits should also be entered on screen **2**.

## Married Filing Separately Filers

If the taxpayer is Married Filing Separately, they must meet the following requirements to claim the credit. The taxpayer:

- Must have lived apart from their spouse during the last six months of 2023
- Must house and be able to claim that the qualifying dependent lived with the taxpayer for more than half of 2023
- Must have paid more than half the cost of the home's upkeep for 2023

A taxpayer meeting the above requirements is considered unmarried for the purpose of the credit.

## Elderly or Disabled Credit

**Screen: R** Use screen **R**, accessible from the first **Credits** tab, for Schedule R (Form 1040), Credit for the Elderly or the Disabled.



If the credit does not show up in the calculated return, make sure the taxpayer's AGI is not too high to qualify for the credit.

## Energy Credits

**Screen: 5695** Use the **5695** screen, accessible from the first **Credits** tab, for Form 5695, Residential Energy Credits. See the on-screen notes and Screen Help (press **CTRL+ALT+?** or right-click the screen and select **Screen Help**) for more information.

## General Business Credits

**Screens: 3800, GBC** Screens **3800** (General Business Credit) and **GBC** (General Business Credits Carryforwards and Carrybacks) are used to claim business credits and enter credit carryforwards and carrybacks. Access these screens from the first **Credits** tab of the **Data Entry Menu**.

### Form 3800, General Business Credit

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

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



- Returns with any data entered for current-year credit forms not supported by Drake Tax must be paper filed.
- *Pass-through credits* from current-year unsupported forms are supported by Drake Tax. Enter these pass-through credits on screens **K1P**, **K1S**, **K1F**, or **PATR**. Enter carryforwards on screen **GBC**.

- To enter data for credits that *are* supported by Drake Tax, use the credit's screen. For example, use the **8820** screen for Form 8820, Orphan Drug Credit.

Also on screen **3800**, if the taxpayer is filing as Married Filing Separately, and the taxpayer's spouse is filing for a General Business Credit, mark the line **13** check box.

Enter any unused current-year credit being carried back and used in 2022 in the **Amount of Carryback** text box.

## Carrybacks and Carryforwards

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

Passive activities credit carryforwards are updated to screen **GBC**. To use the **GBC** screen:

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

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



To create a historical record of credit carryforward amounts used in prior years, enter the corresponding data in the **Amount of Original Credit Previously Used** section on screen **GBC**. Each year, the program updates the remaining credit amount.

## — Form 8582-CR —

**Screen:** Form 8582-CR, Passive Activity Credit Limitations, is used by noncorporate taxpayers to figure the amount of any passive activity credit (PAC) for the current tax year (including any prior-year unallowed credits) and the amount of credit allowed for the current year. It also is used to make the election to increase the basis of credit property when a taxpayer disposes of their interest in an activity. PACs that are not allowed in the current year are carried forward until they are allowed against the tax on either

net passive income or the special allowance, if applicable. Screen **CR** is available on the first **Credits** tab of the **Data Entry Menu**.

## Schedule 8812

**Screens:** **2, 8812, 8867** Schedule 8812 is used to calculate the Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), and Other Dependent Credit (ODC). Drake Tax computes these credits automatically as long as a qualifying dependent is entered on screen **2** and the taxpayer passes due diligence requirements completed on screen **8867**.

Use screen **8812** only to:

- Declare that either the taxpayer or spouse is a **Bona fide resident of Puerto Rico**.
- Enter Puerto Rico-sourced income that the taxpayer or spouse excluded.
- Decline claiming the ACTC.



Bona fide residents of Puerto Rico claiming the ACTC and filing a 1040-SS return must enter their modified adjusted gross income on screen **SS** for the purposes of calculating the ACTC.

In addition to the taxpayer (or spouse, if filing jointly) having a valid SSN or ITIN issued on or before the due date of their 2023 return (including extensions), basic requirements for claiming the credits covered by Schedule 8812 are covered in the following sections.



- See ["Claiming ODC for Form W-7 Filers,"](#) following, for information on applying for an ITIN with the possibility to claim ODC.
- Screen **8867** (Form 8867, Preparer's Due Diligence Checklist) must be completed in order to claim the CTC, ACTC, or ODC. See ["Due Diligence Requirements" on page 139](#) for more information on completing Form 8867 in Drake Tax.

## Claiming ODC for Form W-7 Filers

**Screens:** **2, W7** A taxpayer with a dependent child who has no taxpayer ID is not eligible for CTC or EIC but might be eligible for the \$500 nonrefundable ODC provided for certain nonqualifying children and other dependents.



Returns with a dependent who has not yet received an SSN or ITIN must be paper filed.

To complete Form W-7 and attempt to claim the ODC:

1. Open screen **2** (Dependents), and complete the required fields.
2. Below the **SSN** field, mark the check box **SSN or ITIN applied for but not yet received**. If there is more than one such dependent, take note of the dependent's number (located in the left-most column of grid data entry or in the bottom-left corner of the screen) ([Figure PER-49](#)).
3. Close screen **2** and open screen **W7**, available on the **Foreign** tab of the **Data Entry Menu**.
4. In the **Dependent** field at the top of screen **W7** (red box in [Figure PER-49](#)), enter the dependent's number.

Figure PER-49: Linking a Dependent to Screen **W7**

The screenshot shows two screens. The top screen is a grid titled 'Record 2 of 2' showing dependent information. The second row contains the names '1 REESE' and '2 JNO'. The '2 JNO' row is highlighted with a yellow background. A red box highlights the '2' in 'Record 2 of 2'. A red arrow points from the '2' in 'Record 2 of 2' to the 'Dependent' field on the W7 screen below. The bottom screen is titled 'W-7 - Application for IRS Individual Taxpayer Identification Number'. It has tabs for 'W-7', 'Birth/Other Information', and 'W-7 COA'. The 'W-7' tab is selected. The 'Birth/Other Information' tab is active. The 'Dependent' field is highlighted with a red box and contains the number '2'. To the right of the 'Dependent' field is the text 'Important: See field help'.

5. Click the **Birth/Other Information** tab at the top of the screen to enter other information for each dependent for whom you are filing a Form W-7.
  - At the bottom of the **Birth/Other Information** screen is an **Acceptance Agent** section. No information is required in these override fields unless you wish to override the Acceptance Agent selected in **Setup > Preparer(s)** or the contact information entered at **Setup > Firm(s)**.
6. Click the **W-7 COA** tab at the top of the **W7** screen to identify any supporting documentation being filed. Note that the **Undersigned (Authorizes Representative)** and **Certifying Acceptance Agent Business Name** fields at the top of the screen and the **Signature Section** information at the bottom of the screen are all override fields. No information should be entered in these fields unless you want to override the Acceptance Agent selected in **Setup > Preparer(s)** or the contact information entered at **Setup > Firm(s)**.

Likewise, do not type information in the **W7 Applicant's Name** fields on the **W-7 COA** screen unless you want to override the information flowing from screen **2** on the dependent for whom you are filing the Form W-7.

7. View the return to confirm the results. The Forms W-7 are generated in View/Print mode; any dependents for whom these forms were completed might have the "Credit for other dependents" check box marked on the "Dependents" section of Form 1040.



Returns containing Form W-7 must be paper filed. Form W-7 can also be mailed separate from the main return.

# Earned Income Credit

**Screen:** If the taxpayer is claiming EIC with qualifying dependents, the **Due Diligence** tab of screen **2** ([Figure PER-50](#)) must be completed for *each* qualifying dependent.

Figure PER-50: EIC Section of Screen **2**

Dependent	Due Diligence								
<b>Dependent Due Diligence</b>									
Name: REESE DOB: 10-10-2020									
NOTE: If claiming the Earned Income Credit (EIC), (Additional) Child Tax Credit ((A)CTC), or Other Dependent Credit (ODC) for this dependent, complete this tab as well as screen 8867.									
EIC	CTC	ODC	ACTC	EIC	8812	8867	Yes	No	Not Applicable
* Is either of the following true? The dependent is 1.) unmarried, OR 2.) the dependent is married, can be claimed as the taxpayer's dependent, and is not filing a joint return (except to claim a refund). <input checked="" type="checkbox"/> <input type="checkbox"/>									
* Did the dependent live with the taxpayer in the U.S. for more than half of the year? <input checked="" type="checkbox"/> <input type="checkbox"/>									
* If this is not the taxpayer's son or daughter, did you ask why the parent was not claiming the child? Did you document the answer? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>									
* Could another person qualify to claim this dependent? <input type="checkbox"/> <input checked="" type="checkbox"/>									
If YES: Dependent's relationship to the other person.....									
If the tiebreaker rules apply, would the dependent be treated as the taxpayer's qualifying child? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>									
10 The qualifying person is the taxpayer's dependent who is a citizen, national, or resident of the United States. <input checked="" type="checkbox"/> <input type="checkbox"/>									
11 Did you explain to the taxpayer that they may not claim the (A)CTC if they did not live with the child for more than half the year? <input checked="" type="checkbox"/> <input type="checkbox"/>									
12 Did you explain to the taxpayer the rules about claiming the (A)CTC or ODC for a child of divorced or separated parents, including any Form 8332 or similar statement requirements? <input checked="" type="checkbox"/> <input type="checkbox"/>									
Mark all applicable documents in the section below that you relied on to determine EIC or CTC eligibility for this dependent. Additional entries for this section can be made on screen 8867.									
<b>Residency of Qualifying Child</b>					<b>Disability of Qualifying Child</b>				
<input checked="" type="checkbox"/> School records or statement <input type="checkbox"/> Landlord or property management statement <input type="checkbox"/> Healthcare provider statement <input type="checkbox"/> Medical records <input type="checkbox"/> Childcare provider records <input type="checkbox"/> Placement agency statement <input type="checkbox"/> Social services records or statement <input type="checkbox"/> Place of worship statement <input type="checkbox"/> Indian tribal official statement <input type="checkbox"/> Employer statement <input type="checkbox"/> Did not rely on any documents, made notes in file <input type="checkbox"/> Did not rely on any documents					<input type="checkbox"/> Doctor statement <input type="checkbox"/> Other healthcare provider statement <input type="checkbox"/> Social services agency or program statement <input type="checkbox"/> Did not rely on any documents, made notes in file <input type="checkbox"/> Did not rely on any documents				
Other					Other				
NOTE: You can use screen DD2 (Due Diligence Notes) <a href="#">DD2</a> to document information acquired from the questions you asked.									
<b>Overrides</b>									
<input type="checkbox"/> Eligible for Other Dependents Credit only <input type="checkbox"/> Not eligible for Child Tax Credit OR Other Dependents Credit <input checked="" type="checkbox"/> Taxpayer has Form 8332 from custodial parent and qualifies for the Child Tax Credit									

If a child is not a qualifying child for EIC but does qualify for a related credit due to special circumstances, use the **Overrides** section at the bottom of the **Due Diligence** tab. If the child is otherwise a qualifying child but possesses an SSN that is not authorized for work, has not yet received an ITIN or SSN (but has applied), or was born in 2023 but died before receiving an SSN, make the appropriate selection below the **SSN** field on the **Dependent** tab of screen **2**.



- If claiming EIC with a nonqualifying dependent, the nonqualifying dependent does not count toward the amount of EIC received.
- For a child who is not a dependent but who is a qualifying person for a taxpayer filing as a Qualifying Surviving Spouse, select **Not a dependent - Taxpayer is QSS qualifier** in the **Additional Information** section on the screen **2 Due Diligence** tab.

## EIC and Combat Pay

**Screens:** **W2, EIC** Combat pay entered in box 12 of screen **W2** with a code of “Q” (combat pay) is automatically accounted for in the program calculation. You can include combat pay from Form W-2 in the calculation of EIC. On screen **EIC** (available from the first **Credits** tab of the **Data Entry Menu**), mark the **Include combat pay in EIC calculations** check box.

## Missing EIC Calculations

**Screen:** **PRNT** There might come a time when a preparer is expecting a client to be eligible for Earned Income Credit, but when the preparer completes and views the return, it shows no EIC. To discover what might be blocking the calculation of EIC for the return, go to the **PRNT** screen (available from the **Miscellaneous** tab of the **Data Entry Menu**). On the right side, in the **Due Diligence** section, select **EIC not being calculated?** View the return, and a Return Note is generated, explaining why EIC has not been calculated for this return.



- To automatically generate the Return Note stating why EIC calculations are not being made, from the **Home** window menu bar of Drake Tax, go to **Setup > Options > Form & Schedule Options** tab, and select **Always show reason for no EIC**.
- To exclude IRS Notice 2014-7 income from earned income and have it omitted for EIC purposes, select the **Exclude Medicare waiver payments...** check box at the top of screen **EIC**. Doing this may help some taxpayers qualify for EIC.

## Blocking EIC Calculations

**Screen:** **EIC** In some cases, a taxpayer may not be eligible for EIC, even though the information on the tax return indicates otherwise. To block the program from calculating EIC, mark the **Prevent EIC from being calculated** check box at the top of screen **EIC**.

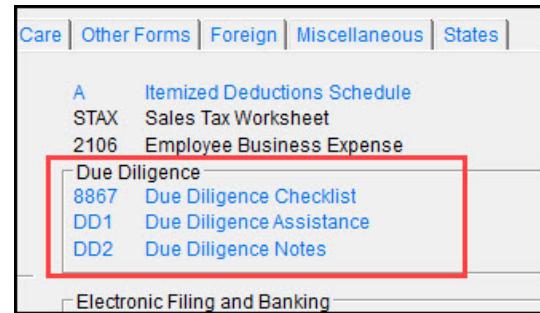
## Due Diligence Requirements

**Screens:** **8867, DD1, DD2** Because a thorough interview is necessary to ensure that all information is gathered about income, deductions, credits, etc., a comprehensive interview process should be part of a tax return preparer’s office operating procedures. This same logic extends to any taxpayer claiming EIC, CTC, ACTC, ODC, or AOTC (American Opportunity Credit), or if filing with an HOH filing status. Since individual tax scenarios change from year to year, all clients—including returning clients—should be interviewed in order to obtain a clear picture for the current-year tax return.

The IRS requires paid return preparers complete Form 8867, Paid Preparers' Earned Income Credit Checklist, for all taxpayers claiming any of the above credits or filing as Head of Household. Use Drake Tax's Due Diligence screens (**8867**, **DD1**, and **DD2**) to record and retain inquiries made of taxpayers to ensure that they meet eligibility requirements.

Screens **8867**, **DD1**, and **DD2** are available from the **General** tab of the **Data Entry Menu**, in the **Due Diligence** section (figure right).

The questions on screen **8867** are used to complete parts of Form 8867 that are not addressed on screens **2** (Dependents), **8812** (Child Tax Credit), **8863** (Education Credits), and **EIC** (Earned Income Credit).



If someone other than the "signing preparer" verifies that the taxpayer is eligible for one of the refundable credits or the HOH filing status, click the **Overrides** tab at the top of screen **8867**. On the appropriate line—**EIC**, **CTC/ACTC/ODC**, **AOTC**, or **HOH**—make a selection from the drop lists of all preparers set up with this firm, or enter a **Name** and **PTIN** in the override fields.

The IRS provides a comprehensive website covering all topics dealing with the due diligence requirements on their [Earned Income Tax Credit](#) page.

## Due Diligence Assistance

**Screens: DD1, DD2** The Due Diligence Assistance screen (**DD1**) provides supplemental questions to help ensure a more comprehensive interview with each taxpayer.

Screen **DD1** is a tabbed screen (see [Figure PER-51](#)), with a tabs for answering qualifying child, income, and Head of Household questions. While the IRS does not require that answers to these supplemental questions be submitted with the return, these screens provide a means of collecting valuable supporting documentation in case of a due diligence audit.

Figure PER-51: Qualifying Child Information on Screen **DD1**

Screen **DD2** (EIC Due Diligence Notes) provides a place to record information unique to each client and provides additional supporting documentation in case of a due diligence audit.

The **DD1** and **DD2** screens are supplemental to the required Due Diligence Checklist (**8867** screen); by default, these screens are required to be completed for all returns in which the EIC, (A)CTC, or ODC is claimed. To turn off this requirement, from the **Home** window menu bar, select **Setup > Options > Administrative Options** tab, and clear the **Require due diligence assistance screens to be completed** check box. You can also select to print these due diligence documents with all eligible returns (by marking the **Print all due diligence assistance documents** check box) or on a per-return basis. (Open

the **PRNT** screen of a return, and select **Produce DDASSIST documents** from the **Due Diligence** section.)

## Retirement Savings Contributions

**Screen:** **8880** Use screen **8880**, accessible from the second **Credits** tab, for Form 8880, Credit for Qualified Retirement Savings Contributions.



When this credit can be applied, Form 8880 is generated automatically and a Return Note is produced stating that retirement plan contributions have been carried to Form 8880. The Note also provides instructions for preventing Form 8880 from being generated.

## Other Credits

[Table PER-7](#) lists all credit forms not mentioned previously for which Drake Tax provides screens. (See the two **Credits** tabs in the **Data Entry Menu**.) Most forms for which no screen is available in Drake Tax can be found at **Tools > Blank Forms**.

Some of the following credits are used in only a narrow set of circumstances, or are among the credits being considered for renewal at this time.

Table PER-7: Other Credits Calculated in Drake Tax

Screen	Form and Credit
<b>3468</b>	Form 3468, Investment Credit
<b>4136</b>	Form 4136, Credit for Federal Tax Paid on Fuels
<b>5884</b>	Form 5884, Work Opportunity Credit
<b>6478</b>	Form 6478, Biofuel Producer Credit
<b>6765</b>	Form 6765, Credit for Increasing Research Activities
<b>8396</b>	Form 8396, Mortgage Interest Credit
<b>8609</b>	Form 8609, Low-Income Housing Credit Allocation and Certification
<b>8801</b>	Form 8801, Credit for Prior Year Minimum Tax- Individuals, Estates, and Trusts
<b>8820</b>	Form 8820, Orphan Drug Credit
<b>8826</b>	Form 8826, Disabled Access Credit
<b>8834</b>	Form 8834, Qualified Electric Vehicle Credit
<b>8835</b>	Form 8835, Renewable Electricity, Refined Coal, and Indian Coal Production Credit

Screen	Form and Credit
<b>8839</b>	Form 8839, Qualified Adoption Expenses
<b>8844</b>	Form 8844, Empowerment Zone Employment Credit (see "Note," following this table)
<b>8846</b>	Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
<b>8859</b>	Form 8859, D. C. First-Time Homebuyer Credit (This credit expired in 2009. The <b>8859</b> screen in Drake Tax contains <b>TSJ</b> and carryforward fields only.)
<b>8864</b>	Form 8864, Biodiesel and Renewable Diesel Fuels Credit
<b>8874</b>	Form 8874, New Markets Credit
<b>8881</b>	Form 8881, Credit for Small Employer Pension Plan Startup Costs
<b>8882</b>	Form 8882, Credit for Employer-Provided Childcare Facilities and Services
<b>8896</b>	Form 8896, Low Sulfur Diesel Fuel Production Credit
<b>8908</b>	Form 8908, Energy Efficient Home Credit
<b>8911</b>	Form 8911, Alternative Fuel Vehicle Refueling Property Credit
<b>8912</b>	Form 8912, Credit to Holders of Tax Credit Bonds
<b>8936</b>	Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit
<b>8941</b>	Form 8941, Credit for Small Employer Health Insurance Premiums
<b>8994</b>	Form 8994, Employer Credit for Paid Family and Medical Leave



The empowerment zone designations expired at the end of 2017; however, due to the Taxpayer Certainty and Disaster Tax Relief Act of 2020, on May 26, 2021, all empowerment zone designations were extended from December 31, 2020, to December 31, 2025. Refer to [IRS.gov/Form8844](https://irs.gov/Form8844) for updates.

## Reporting Other Tax

Use screens under the **Taxes** tab of the **Data Entry Menu** to calculate other tax that may be due.

## Unreported SS and Medicare Tax

**Screens:** **4137, 8919** In Drake Tax, use screen **4137** or screen **8919** (accessible from the **Taxes** tab) for Form 4137, Social Security and Medicare Tax on Unreported Tip Income, and Form 8919, Uncollected Social Security and Medicare Tax on Wages.

## Additional Tax on Qualified Plans

**Screen:** Drake Tax automatically calculates the taxable income from Qualified Tuition Program (QTP) and Coverdell Education Savings Account (ESA) distributions. The calculated amount flows to the following places in the tax return:

- Schedule 1 (Form 1040), line 8, "Other income"
- Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, line 5, "Distributions included in income from a Coverdell ESA, a QTP, or an ABLE account"

Figure PER-52: Education Expenses and Contributions from QTP or ESA

**Part II - Education and ABLE Accounts (Enter each distribution on separate screen.)**

QTP/ESA Taxable Distributions

Adjusted qualified education expenses for 2023.....

Gross distribution from Qualified Tuition Program (QTP)/Coverdell ESA.....

Portion of QTP distribution that is earnings.....

Basis in Coverdell ESA as of December 31, 2022.....

Education account type.....

2023 contributions this ESA.....

Enter qualified education expenses and contributions to and distributions from a QTP or ESA in the **QTP/ESA Taxable Distributions** section of screen **5329** ([Figure PER-52](#) above). The **5329** screen is accessible from the **Adjustment** tab of the **Data Entry Menu**.

The program uses information entered in these fields to calculate the taxable portion of distributions and to generate the calculated amounts on the return. [Table PER-8](#) shows which fields are required in order to ensure correct calculations.

Table PER-8: Other Tax Forms that can be Calculated in Drake Tax

To Calculate Income from ESA	To Calculate Income from QTP
Adjusted qualified education expenses for 2023	Adjusted qualified education expenses for 2023
Gross distribution from Qualified Tuition Program (QTP)/Coverdell ESA	Gross distribution from Qualified Tuition Program (QTP)/Coverdell ESA
Basis in Coverdell ESA as of December 31, 2022	Portion of QTP distribution that is earnings
Education account type	Education account type
2023 contributions for this ESA	
Value [of Coverdell ESA] on last day of 2023 (entered at top-left of screen <b>5329</b> in the <b>Coverdell ESA</b> column)	

Along with the automatic calculation, the program produces a Coverdell ESA Distribution and Basis Worksheet—"Wks QTP\_ESA"—that shows how the taxable amount was calculated. This worksheet can be viewed using the **All Forms, Sets**, and **Miscellaneous** tabs of View/Print mode.



The penalty calculated includes any amount that is income from a Coverdell ESA or QTP.

## Household Employment Taxes

**Screen: H** Use screen **H**, available from the **Taxes** tab, for Schedule H (Form 1040), Household Employment Taxes.

## Additional Medicare Tax

**Screen: 8959** Use screen **8959** to complete Form 8959, Additional Medicare Tax, to report the 0.9% Additional Medicare Tax that applies to an individual's wages, Railroad Retirement Tax Act compensation, and self-employment income that exceeds a threshold amount based on the individual's filing status.

Fields for completing Form 8959 are found at the bottom of the two-part screen; the top section is for completing Form 8960, Net Investment Income Tax.

Enter amounts as necessary for lines 14 and 23 of Form 8959; the remainder of the form is completed by the program from calculations and data entered elsewhere. If necessary, use the line 19 adjustment field to round amounts from multiple Forms W-2.

## Net Investment Income Tax

**Screen: 8960** Use screen **8960** to complete Form 8960, Net Investment Income Tax – Individuals, Estates, and Trusts, used to report the Net Investment Income Tax that applies to individuals, estates, and trusts that have select investment income above certain threshold amounts.

Most values used in calculating Form 8960 flow from elsewhere within the return. If needed, screens **K1P**, **K1S**, and **K1F** contain adjustment fields for Form 8960 (located on the respective **1065 K1 12-20**, **1120S K1 11-17**, and **1041 K1 12-14** tabs). Use screen **8960** for overriding select program calculations or for direct entry into certain fields.

Form 8960 is generated only if required but can be forced by selecting **Produce Form 8960** on screen **PRNT**.



Mark the **Carry to 8960 line 4b** check boxes on screens **E** (Rent and Royalty Income) or **4835** (Farm Rental Income) to send amounts entered on those screens to line 4b, "Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business," of Form 8960.

## Other Taxes

Screens for the following forms, which are not discussed in this manual, are available under the **Taxes** tab in Drake Tax. Refer to Screen Help and field helps for guidance on completing these screens.

Table PER-9: Other Tax Forms that can be Calculated in Drake Tax

Screen/Form	Form and Tax
4970	Form 4970, Tax on Accumulation Distribution of Trusts
4972	Form 4972, Tax on Lump-Sum Distributions
8611	Form 8611, Recapture of Low-Income Housing Credit
8615*	Form 8615, Tax for Certain Children Who Have Unearned Income ("Kiddie Tax")
8814	Form 8814, Parents' Election to Report Child's Interest and Dividends
8828	Form 8828, Recapture of Federal Mortgage Subsidy

\*If both parents are deceased, open screen **MISC** and select **Both parents deceased** in the **Dependent filer special situation** section.

## Estimated Taxes

This section focuses on the following information in Drake Tax:

- Estimated taxes paid in 2023
- Estimated payments for 2024
- Estimated tax adjustments
- Applying 2023 overpayment to 2024
- e-Filing state vouchers and making payments
- Underpayment of estimated tax
- Estimated tax penalty

## Estimated Taxes Already Paid in 2023

**Screen:** Use the **ES** screen to enter, by quarter, the 2023 overpayment that was applied to, and the estimated taxes paid for, 2023 ([Figure PER-53](#)). The program applies the standard estimate payment dates. If any of these dates is different, enter the correct date in the applicable **Date paid** override field.

Figure PER-53: Estimated Taxes Paid for 2023 on the **ES** Screen

2023 ESTIMATED TAXES ALREADY PAID FOR THIS YEAR		
Overpayment applied from 2022 .....		
	Date Paid	Amount Paid
1st quarter	=	
2nd quarter	=	
3rd quarter	=	
4th quarter	=	

## Estimated Payments for 2024

Estimated payments for 2024 are shown on the payment vouchers in View/Print mode.

Taxpayers can make their estimated *federal* tax payments by debit card or credit card using the Drake Tax e-Payment Center at [www.1040PayTax.com](http://www.1040PayTax.com). See the **Pay federal ES tax payments...** link at the top of the **ES** screen; additionally, payments can be made via screen **PMT** or by mailing a check with a voucher. A link to screen **PMT** is available in the **e-file/Electronic Funds Withdrawal** section on the right-side of the **ES** screen.



For state estimated tax payments, see ["Making Payments" on page 149](#).

## Printing Estimate Vouchers

By default, Drake Tax calculates the return's balance due and generates Form 1040-V if the taxpayer owes \$1,000 or more; Drake Tax also automatically produces federal *estimate* vouchers for next year's payments. To override the global option for generating Form 1040-V (made from **Setup > Options > Form & Schedule Options** tab), select **N** from the **ES Code** drop list on the **ES** screen.

## Overriding Voucher Amounts

The program divides the estimate amounts equally among the four vouchers. To have different payment amounts displayed on the vouchers, you must enter the amounts manually in the fields of the **Estimate Amt** columns of the **ES** screen. (See item #3 in [Figure PER-54](#).)



If you are not filing four quarterly vouchers—for instance, if filing too late to pay the first quarter payment—the program adds the amount of the missed payment to the next available voucher. Enter “0” (zero) in the **Voucher** field of the **Estimate Amt** column for the quarter the payment was not made.

## Estimated Tax Adjustments

**Screen:** Use the **Estimated Tax Adjustments (ETA)** screen (accessed from the **Estimated Tax Adjustment** link at the top of the **ES** screen or the **Taxes** tab of the **Data Entry Menu**) if the taxpayer expects a significant change in income the following year. If entries are made on this screen, the program generates the Estimated Tax Worksheet for Next Year (“Wks ES”) that shows the calculated estimates.

## Applying 2023 Overpayment to 2024

**Screen:** To apply part of a 2023 overpayment to the 2024 estimate, enter the total overpayment to apply to all estimates (item #1 in [Figure PER-54](#)) on the **ES** screen.

Figure PER-54: Estimated Tax Payments on the **ES** Screen

□ For 2024 vouchers, print name of taxpayer indicated in the "TSJ" drop list ONLY

**2024 ESTIMATED TAXES TO BE PAID FOR NEXT YEAR**

	Estimate Amt.	Overpayment
Voucher 1	=	=
Voucher 2	=	=
Voucher 3	=	=
Voucher 4	=	=

Amount of overpayment to apply to 2024.....

ES code  OP code

e-File/Electronic Funds Withdrawal  
To e-file federal ES payments, use screen [PMT](#)

Increase/decrease calculated estimates by.....

The program applies the overpayment according to the overpayment code (**OP Code**) selected (item #2). (See [“OP Codes” on page 148](#).) To override the **OP code** selection, enter amounts to be applied into the **Overpayment** override column for each voucher (item #3).

## Changing Calculated Estimates

A positive amount entered in the **Increase/Decrease calculated estimates by** field (item #4 in [Figure PER-54](#)) increases the total estimated tax calculated by the program. A negative amount is subtracted from total estimated tax calculated by the program.

For example, if the program determines that \$8,000 should be paid in estimated taxes for 2024, and the preparer is aware that \$10,000 should actually be paid due to increased income in 2024, enter \$2,000 in this field.

## OP Codes

If applying an overpayment to the 2024 estimated tax, it is necessary to indicate how that overpayment should be applied on the estimate vouchers. Do this by selecting an **OP Code** (overpayment code) on the **ES** screen (item #2 in [Figure PER-54 on page 147](#)).

## Estimated Taxes & Vouchers (States/Cities)

Use the **ES** screen to enter, by quarter and *by state and city*, the 2022 overpayment and the estimated taxes paid in 2023. You can also e-file state payment vouchers and make direct debit payments—for those states and cities that allow electronic payments and e-filed vouchers—from the **ES** screen.



State rules concerning electronic payments and e-filed vouchers vary. To see a list of which states allow e-filed vouchers, view the field help for the **e-file** check box in the **e-file/Electronic Funds Withdrawal** section in the lower right quadrant of the **EF** screen. To see a complete list of e-file options by state and by tax package, see [Knowledge Base article "13370: State Returns - Estimated Tax Vouchers Direct Debit."](#)

## Selecting a State

On the left side of the **State and City Section** of the **ES** screen, select a state or city from the **St/City** drop list and a **Type** (if appropriate). The program applies the standard estimate payment dates. If any of these dates is different, enter the correct date in the applicable **Date paid** override field. If you want to vary the amounts for the quarterly payments, make those adjustments in the **Amount paid** fields.

## Overpayments and ES Codes

Apply overpayments and print estimate vouchers for states and cities just as you did in the federal section. See ["Applying 2023 Overpayment to 2024" on page 147](#).

## e-Filing Vouchers

You can e-file state estimated tax vouchers and make payments electronically.

To e-file the vouchers, mark which voucher you wish to transmit with a check mark in the **e-file** column of the **e-file/Electronic Funds Withdrawal** section (item #1 in [Figure PER-55](#)). To choose a date other than the due date to authorize the direct debit of the account, enter a date in the **Direct Debit Date** override field.

## Making Payments

You have the option of using the **Account #1** information entered on the **PMT** screen (item #2 in [Figure PER-55](#)) to make a payment or entering new bank account information on the **ES** screen (#3).

Figure PER-55: e-File Vouchers and State Tax Payments from Screen **ES**

2024 ESTIMATED TAXES TO BE PAID FOR NEXT YEAR

ST/city:  Type:  ES code:  OP code:   
LLC #:

Amount of overpayment to apply to 2024:

	Estimate Amt.	Overpayment	e-File	Direct Debit Date
Voucher 1	<input type="text"/>	= <input type="text"/>	<input type="checkbox"/>	= <input type="text"/>
Voucher 2	<input type="text"/>	= <input type="text"/>	<input type="checkbox"/>	= <input type="text"/>
Voucher 3	<input type="text"/>	= <input type="text"/>	<input type="checkbox"/>	= <input type="text"/>
Voucher 4	<input type="text"/>	= <input type="text"/>	<input type="checkbox"/>	= <input type="text"/>

Increase/decrease calculated estimates by:  +/-

NOTE: To e-file ES vouchers, select the corresponding "e-File" check boxes above and provide account information below.

Use Account #1 information from federal screen PMT

OR

3 Name of financial institution:

RTN: <input type="text"/>	Account Number: <input type="text"/>	Type of Account: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<input type="text"/>	<input type="text"/>	<input type="checkbox"/> Checking <input type="checkbox"/> Savings

## Multiple States

If the taxpayer has estimated taxes to file and pay in more than one state, press PAGE DOWN to get a fresh **ES** screen.

## Underpayment of Estimated Tax

**Screens:** **1, 2210** By default, the program calculates the estimated tax penalty and generates Form 2210 if there is an underpayment penalty due and the form is required. If Form 2210 is required, mark the reason for the requirement in the upper-left corner of the **2210** screen (accessed from the **Taxes** tab of the **Data Entry Menu**).

Override the default penalty settings for a single return in the **2210 Options** section of screen **1** (figure right).

The screenshot shows the '2210 Options' screen with three input fields. The first field is '2210 code.....' with a dropdown arrow. The second field is '2022 federal tax.....' with a text input field. The third field is '2022 state tax.....' with a text input field.

To print or suppress Form 2210 (or Form 2210-F) for a return, select one of the options from the **2210 Code** drop list ([Table PER-10](#)).

Table PER-10: 2210 Codes in Drake Tax

2210 Code	Program Action
X	Calculates the estimated penalty; produces Form 2210 if necessary.
P	Calculates the estimated penalty; produces Form 2210 even if not required.
F	Calculates the estimated penalty; produces Form 2210-F if necessary.
G	Calculates the estimated penalty; produces Form 2210-F even if not required.
N	Does not calculate the estimated penalty. (If this option is chosen, no form for underpayment of estimated tax is generated with the return.)

If a return is updated from the previous year, the program displays the prior-year tax in the **2022 Fed tax** and **2022 State tax** fields of screen **1**. To override an amount shown, enter a new amount.

Based on this amount, program calculations determine whether the taxpayer must pay the underpayment penalty.

## Estimated Tax Penalty

**Screen:** The program automatically calculates a penalty for underpayment of estimated taxes and prints that amount on the “Estimated tax penalty” line (38) of Form 1040. To override the system calculation, use the **Estimated tax penalty** field on screen **5**.



For information on calculating interest and penalty amounts for late filing or late payment, see [“Penalty and Interest Calculation” on page 209](#).

## First-Time Homebuyer Credit

**Screen:** Taxpayers who bought a home in 2008 and took advantage of the first-time homebuyer credit must repay the amount in 15 equal installments. If you have prepared the client’s tax returns using Drake Tax, the **HOME** screen keeps track of the amount repaid every year, beginning with the 2010 tax year.

If you did not prepare this taxpayer’s return previously using Drake Tax, go to the **HOME** screen (accessible from the **Income** tab of the **Data Entry Menu**), and in the **Form 5405 Repayment Information** section on the right side of the screen, enter the required information. If the taxpayer no longer uses the house as their main home, enter the date the home no longer was the taxpayer’s primary place of residence in the **Date home ceased to be main home if not sold** field.

For more information, see the Screen Help. (Press **CTRL+ALT+?** or right-click the window and select **Screen Help** from the right-click menu.) Note the hyperlink to the IRS’ **First-Time Home Buyer’s Account Look-up Tool** at the top of the **Screen Help** window.

## Direct Deposit

**Screens:** Use the **DD** screen, accessible from the **General** tab, to indicate that a refund is to be deposited directly into the taxpayer’s account.



- The **DD** screen contains fields for completing IRS Form 8888, Allocation of Refund (Including Savings Bond Purchases), and a link to screen **BOND** for purchasing U.S. Savings Bonds with the refund.
- This section refers to refunds that are *not* issued via Drake Software’s bank-partners (“bank products”). Enter account information for bank products on the applicable bank screen. For information on bank products, see the [2023 Drake Tax Manual](#).

## Required Information

The name of the financial institution, the bank's routing number (RTN), the client's account number, and the type of account (checking or savings) are required. The **RTN**, **Account number**, and **Type of account** information must be entered twice ([Figure PER-56](#)) or an EF Message is generated, preventing the return from being e-filed.

Figure PER-56: Verifying Account Information for Direct Deposit

Name of financial institution	RTN	Account number	Type of account
WELLS FARGO	0	1	<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>Repeat account information</b>			
0      1			
Check if account is.....	<input type="checkbox"/> IRA	<input type="checkbox"/> Foreign	<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings
Deposit refund from.....	<input type="checkbox"/> 1040	<input type="checkbox"/> 1040-X	<input type="checkbox"/> 1040-X - 2nd Amended Return <input type="checkbox"/> 1040-X - 3rd Amended Return

If the bank account is an IRA, select the **IRA** check box. If the information entered is for an account located outside of the United States, mark the **Foreign** check box.



Due to banking regulations regarding international ACH transactions (IAT), state taxing agencies handle foreign transactions differently from domestic transactions. For filing season 2023, no states are supporting IATs; therefore, marking the **Foreign** check box generates an EF Message instructing you to change the account to one located in the United States. See Screen Help on the **DD** screen (press **CTRL+ALT+?**) for more details.

## Direct Deposit of Federal Refund

If a single account is entered on the **DD** screen, the information flows to the "Refund" section of Form 1040. If multiple accounts are entered, the program produces Form 8888, Allocation of Refund. You can enter up to three accounts.



You can direct-deposit no more than three refunds into one account or onto a prepaid debit card. Any subsequent refunds using the same routing/account information will be refunded with a check mailed to the address of record for the SSN/EIN. Taxpayers also receive a notice informing them that the account has exceeded the direct deposit limits.

## Form 8888 Conditions

The following conditions *must* apply for the taxpayer to file Form 8888:

- The accounts indicated for the refund deposit are checking, savings, or other accounts such as an IRA, MSA, etc.
- The accounts must be in either the taxpayer's or spouse's name.

## — Multiple Accounts —

By default, the program directs the federal refund to the first account entered on the **DD** screen.

If depositing funds into multiple accounts, select **Yes** or **No** from the **Federal selection** drop list to indicate whether the first account entered should be used for the federal refund ([Figure PER-57](#)). The default selection is **Yes**. Select **No** if the federal refund is not to go to the account listed.

Figure PER-57: Directing Deposit of Federal Refund

To indicate that a refund should be distributed into multiple accounts, enter the portion to deposit into each account in the appropriate **Federal deposit amount** override field on the **DD** screen ([Figure PER-58](#)).

Figure PER-58: **Federal deposit amount** Field on Screen **DD**

To have part of the refund disbursed as a paper check, enter the amounts to be direct deposited in the **Federal deposit amount** override fields, then press PAGE DOWN to open the **BOND** screen, and mark the check box in the **Paper Check** section.



Because not all states support multi-account direct deposit, the **State deposit amount** field is inactive by default.

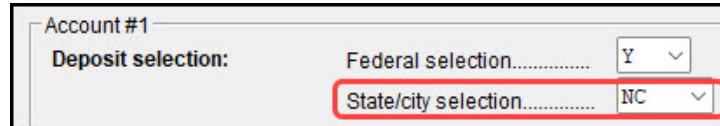
## — Series I Savings Bonds —

**Screen: BOND** To indicate that a taxpayer wishes to make a Series I Savings Bond purchase from the tax refund, press PAGE DOWN from the **DD** screen (or click the **U.S. Savings Bond Purchases** link at the top of the **DD** screen) and fill out the **BOND** screen. If the taxpayer wishes to receive the remainder of the refund disbursed as a paper check, mark the box in the **Paper Check** section.

## Direct Deposit of State or City Refund

**Screen:** To have a state or city refund deposited into an account, select the state abbreviation from the **State/city selection** drop list for the account ([Figure PER-59](#)).

Figure PER-59: State or City Selection on **DD** Screen



The screenshot shows a software interface for direct deposit. At the top, it says 'Account #1'. Below that, there are two dropdown menus: 'Deposit selection' (set to 'Federal selection.....') and 'State/city selection' (set to 'NC'). The 'State/city selection' dropdown is highlighted with a red box.

If this field is left blank, no state refund will be deposited into the account.

## Multiple State Refunds

If the taxpayer receives refunds for more than one state or city return and wants to deposit refunds into separate accounts, indicate this on the **DD** screen by choosing a code from the **State/city selection** drop list for each account ([Figure PER-59](#)). To have the refunds from all eligible state and city returns deposited into one account, select **A** from the **State/city selection** drop list.

### — OH Refunds —

Ohio has unique requirements for direct deposit. Note the section near the bottom of the **DD** screen if the return is to be e-filed for Ohio. (Click inside the check box and press F1 to read the OH disclosure acceptance statement.)

### — OH and NY College Plans —

Click the **Ohio College 529 plans** link or the **NY College 529 plans** link to deposit refunds into one of these 529-plan accounts. (Click inside the **OH** check box and press F1 to view information on 529 College plans for OH and NY.)

## Electronic Payment Options

Electronic payments can be made by credit card, debit card, or electronic funds withdrawal ("direct debit").

## Pay Balance with Credit or Debit Card

Drake Tax offers two options for paying a balance due with a credit or debit card (MasterCard®, Visa®, American Express®, or Discover®):

- **Integrated File and Pay (IFP)** — Authorize payment via credit card or debit card prior to e-filing the return. Once the e-filed return is accepted by the IRS, the debit card or credit card is charged.
- **Drake e-Payment Center** — Taxpayers can use the Drake e-Payment Center, located at [www.1040PayTax.com](http://www.1040PayTax.com) (or click the **Pay federal ES tax payments ...** link at the top of the **ES** screen) to pay a balance due by debit or credit card after the return has been filed.

### Using the **IFP** Screen

**Screen:** Use the **IFP** screen, accessible from the **Miscellaneous** tab or from the **Pay balance due with credit card...** link on the **PMT** screen, to pay the tax due with a return. Use this screen *after* the return is completed but *before* it is e-filed.



- In order to use IFP, you must enter the taxpayers' first and last names, SSN, full address, phone number including area code, and email address on screen **1**.
- A return must be e-filed and accepted within 21 days of card authorization in order to complete the payment transaction. If a return is not accepted within 21 days (or is rejected), the authorization is, in effect, canceled. Reauthorization is then required.

On the **IFP** screen, indicate the form being e-filed (**1040** or **4868** extension), *recalculate the return*, then return to the **IFP** screen and click the **Authorize Credit Card** button. You are then directed to a website where you can enter the taxpayer's credit card information and authorize a hold on the card.

To have the Client Results letter refer to the payment method used, enter the last four digits of the credit card number in the **Optional Letter Information** section of the **IFP** screen. The Client Results letter will then reference the amount that is to be charged to the credit card and display the card's last four digits.



Taxpayers can use [Value Payment Systems](#) to check their payment statuses. See the Screen Help for the **IFP** screen (select **Help** from the data entry screen toolbar or press **CTRL+ALT+?**) and click the **Verify Tax Payment** link to be directed to the website.

## Electronic Withdrawal (Direct Debit)

**Screen:** Use the **PMT** screen, accessible from the **General** tab, to indicate that funds are to be electronically withdrawn (direct-debited) from the taxpayer's account for payment of taxes owed.

## Program Defaults and Overrides

By default, the program indicates that the entire balance (the "Amount You Owe" section of Form 1040) is to be electronically withdrawn on the return due date, unless otherwise indicated using the override fields for each account entered.

If the return is e-filed on or before April 15, 2024, the requested payment date cannot be later than April 15. If the return is transmitted after April 15, the requested payment date cannot be later than the current date.

## Required Information

A **Withdrawal selection** (item #1 in [Figure PER-60](#)) is required if the program is to direct tax authorities to electronically withdraw funds from the taxpayer's account.

Figure PER-60: Required Fields on **PMT** Screen: Withdrawal Selection (#1); Bank Information (#2); Specified Return (#3)

The screenshot shows the 'PMT' screen with three main sections highlighted by red circles and numbered 1, 2, and 3.   
 Section 1 (Withdrawal Selection): Shows 'Federal selection' (checked) and 'State/city selection' (NC).   
 Section 2 (Bank Information): Shows 'Name of financial institution' (WELLS FARGO), 'RTN' (011040), 'Account number' (011040), and 'Type of account' (Checking and Savings checked).   
 Section 3 (Specified Return): Shows 'Federal' fields (Federal payment amount, Requested payment date, Daytime phone number) and 'Payment is for' checkboxes (1040, 4868, 2350, 1040-X, 1040-X - 2nd Amended Return, 1040-X - 3rd Amended Return). The '1040' checkbox is checked.

The name of the financial institution, the bank's routing number (RTN), the client's account number, and the type of account (checking or savings) are required (#2). The **RTN**, **Account number**, and **Type of account** must be entered twice.

Finally, the **PMT** screen must indicate the return to which the payment data applies (#3). Mark the box of the applicable return type.

## Withdrawal from Multiple Accounts

Neither a federal payment nor a state direct debit payment can be made from more than one account. To have a *state* payment withdrawn from an account other than the account indicated for

federal, complete the fields in the **Account #2** section of the **PMT** screen. (To have a payment for a second state withdrawn from a third account, complete **Account #3**.)

## Direct Debit Consent

If the taxpayer is using direct debit from their bank account to make a tax payment, you must mark the **Direct Debit Consent** box on the **PIN** screen to indicate that the taxpayer authorizes funds to be electronically withdrawn from their account.

## Direct Debit of Estimates

To indicate direct debit of estimate payments only, select **E – Estimates Only** from the **Federal selection** drop list at the top of the screen. By default, the estimate payment amounts and dates are calculated from the information entered on the **ES** screen. Use the fields in the **Federal 1040-ES** section of the **PMT** screen to override that data.

For more information, see the Screen Help for the **PMT** screen.

## Third-Party Designee

Taxpayers can choose to allow someone—either a preparer or ERO—to discuss their tax issues with the IRS.

To set up an individual preparer or ERO as the third-party designee for all returns, from the **Home** window menu bar, select **Setup > Options**, and click the **Optional Items on Return** tab. From the **Preparer** drop list, select either a preparer or the ERO. (The program uses the PIN entered at **Setup > Preparer(s)** in the respective preparer's **PIN signature** field as the third-party designee PIN.) You can override this default for a single return as needed. (See "[For a Single Return \(Override\)](#)" on page [158](#).)

The options when choosing a third-party designee are shown in [Table PER-11](#), along with descriptions of how the selections affect the "Third Party Designee" section on page 2 of Form 1040.

Table PER-11: Setup Options for Third-Party Designee

Selection	"Third Party Designee" Section of Form 1040
None	Blank — The "No" box is marked on page 2 of Form 1040. (This default selection can be overridden from the <b>PREP</b> screen; see " <a href="#">For a Single Return (Override)</a> " on page <a href="#">158</a> .)

**Selection****"Third Party Designee" Section of Form 1040**Preparer (1-9)<sup>1</sup>Designated preparer (for preparer numbers, see list in **Preparer Setup**); "Yes" box is marked.

Return Preparer

Preparer who prepared the return; "Yes" box is marked.

ERO\*

Preparer indicated at **Setup > Options > EF** tab as **Default ERO**; "Yes" box is marked.**For a Single Return (Override)**

**Screen:** Use the **PREP** screen to override the setup options for a third-party designee for a single return—choose whether or not to allow a third-party designee, or override the elected third-party designee.

Enter the designee's name, phone, and PIN in the fields provided (email is optional). (See [Figure PER-61](#).)

Figure PER-61: **Third Party Designee** Section of **PREP** Screen

Third Party Designee	
Allow another person to discuss this return with IRS.....	
First name.....	DAVID
Last name.....	BALFOUR
Email.....	DBAL@DNET.COM
Phone	828-222-2222
PIN	1

In the "Third Party Designee" section on page 2, the name, phone number, and PIN of the third-party designee entered on the **PREP** screen ([Figure PER-61](#)) is printed and the "Yes" box marked.

In the "Paid Preparer Use Only" section on page 2 of the 1040, the preparer's name, PTIN, phone number, and the firm's name, address, and EIN are printed.

For more on how to use the **PREP** screen to override preparer information, see ["Overriding Other Preparer Information" on page 202](#).

**No Third-Party Designee**

To override the selection of a third-party designee from **Setup > Options > Optional Items on Return** tab and indicate that no one other than the taxpayer is allowed to discuss the return with the IRS, go to the **PREP** screen and select **No** from the **Allow another person...** drop list in the **Third Party**

<sup>1</sup> If a preparer or ERO is selected, a PIN *must* be entered for that preparer; otherwise, no preparer's name shows up as the third-party designee on Form 1040 and the "No" box is marked.

**Designee** section. Consequently, all lines in the “Third Party Designee” section on page 2 of Form 1040 are blank and the “No” box is marked.



- If no third-party designee is indicated in **Setup > Options > Optional Items on Return** tab, “No” is indicated in the “Third Party Designee” section on page 2 of Form 1040.
- If you select **Yes** on the **PREP** screen but leave the other fields blank, the “Yes” box will be marked in the “Third Party Designee” section of Form 1040 but all third-party information fields will be blank.

## Signing the Return

An e-filed tax return must contain electronic signatures of both the taxpayer and the ERO in order to be accepted. Electronic signatures are produced using PINs.

### Form 8879

**Screens: 8879, PIN** Form 8879, IRS e-File Signature Authorization, allows taxpayers to select PIN signatures (or have the tax program choose random numbers for them). It also authorizes the ERO to enter the taxpayers’ PIN signatures authorizing electronic withdrawal of funds for tax payments.



- A signed Form 8879 (or 8878) should not be mailed to the IRS. It must instead be retained by the ERO for three years. See Form 8879 instructions for more information.
- To print the 8879 or 8878 filing instructions, from the **Home** window menu bar, go to **Setup > Options > Client Communications** tab and mark the **Print filing instructions for federal Forms 8878 and 8879** check box. Override this selection on a per-return basis by using the **Print filing instructions for Form 8878 and 8879** drop list on screen **PIN**.

Use the **PIN** screen, accessible from the **General** tab, to complete Form 8879. The generated return uses both the taxpayer’s PIN and the ERO’s practitioner PIN.



The PIN entered must match either the PIN of the **Default ERO** (selected at **Setup > Options > EF** tab) or the PIN of the preparer specified in the **Preparer #** override field on screen **1**.

## Signature Date

A **PIN signature date** is required at the top of the **PIN** screen. If no date is entered, an EF Message is generated and the return cannot be e-filed.

## Obtaining Client PIN Signatures

Ideally, the client signs Form 8879 in your office. If the client is not available to sign, you can email Form 8879 as a PDF to the client and have the client sign the form and return it to you.



A secure way of obtaining a signed 8879 is through Drake Portals. Visit [Support.DrakeSoftware.com](http://Support.DrakeSoftware.com) > **Products** > **Drake Portals** to learn more.

The taxpayer can select their own PIN (any five-digit number except 00000). On the **PIN** screen, have your client enter their PIN, and then indicate either **Taxpayer entered** or **Spouse entered**. If the client is not available and you enter the PIN signatures, leave the check boxes blank.

The taxpayer can elect to use the PIN generated by the program. To turn off the option to generate PINs, go to **Setup** > **Options** > **EF** tab and clear the check mark from **Auto-generate taxpayer(s) PIN (1040 Only)** option.

## Direct Debit Consent

If the taxpayer is using direct debit from their bank account to make a tax payment, you must mark the **Direct Debit Consent** box on the **PIN** screen to indicate that the taxpayer authorizes funds to be electronically withdrawn from their account. See ["Electronic Withdrawal \(Direct Debit\)" on page 156](#) for more information.

## PIN Signatures for Non-1040 Returns

By default, Form 8879 is printed with Form 1040. If an electronic signature form is to be printed with any of the following other forms, indicate this by selecting the applicable box in the **Select Form** section of the **PIN** screen:

- Superseded returns or Form 1040-X, Amended U.S. Individual Income Tax Return
  - Select the appropriate **1040-X/Superseded** option. 1040 returns superseded or amended more than three times (in total) must be paper filed instead.
- Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return (with payment)

- Form 2350, Application for Extension of Time to File U.S. Income Tax Return
- Form 9465, Installment Agreement Request
- Form 56, Notice Concerning Fiduciary Relationship

Note that the electronic signature form is required with Form 4868 only if making a payment. For Forms 4868 and 2350, the program produces Form 8878, IRS e-file Signature Authorization for Form 4868 or Form 2350.



Prior-year AGI amounts are required if Forms 2350, 9465, and 56 are to be e-filed. Enter this data in the **Prior year AGI** section of the **PIN** screen.

## Special Conditions

There are special conditions for instances when someone other than the taxpayer signs a tax return.

### Power of Attorney

**Screens:** If the return is being signed by someone with Power of Attorney for the taxpayer, you must indicate **2848, MISC** this in the program and provide the IRS with a copy of Form 2848, Power of Attorney. (Screen **2848** is available from the **Other Forms** tab of the **Data Entry Menu**.) Because Form 2848 is not e-filable, it must be mailed or faxed to the IRS.



You can enter an unlimited number of representatives when filling out Form 2848, Power of Attorney. From screen **2848**, press PAGE DOWN to open another screen for information on another representative.

### — Mail or Fax Form 2848 —

A transmittal (Form 8453) can be e-filed with the return, alerting the IRS that a paper document is being sent that corresponds with this e-filed return. To generate the transmittal:

1. Open screen **MISC** (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. In the **Special Signatures** section, mark the **Return signed by Power of Attorney** check box and enter the name of the person signing by use of the power of attorney.
3. Open and complete screen **2848**.
4. View the return. Form 8453 is generated with the paper-document indicator marked for Form 2848.

5. Print Form 2848 and mail or fax it to the IRS.



For MFJ returns, there will be two Forms 2848 to print and mail.

## Taxpayer Signing for Spouse

If the taxpayer is signing the return for the spouse, mark the **Taxpayer is signing for Spouse...** check box in the **Special Signatures** section of the **MISC** screen and provide an explanation using the **SCH** screen. (Select code **024** from the drop list on the **SCH** screen; see ["Unformatted Schedules" on page 217](#) for details on using the **SCH** screen.)

## Form 4562

**Screen:** Form 4562, Depreciation and Amortization, is used to claim deductions for depreciation and amortization, to elect to expense certain property under Section 179, and to indicate automobile and other listed property use for business/investment purposes.

## Where the Information Flows

Data entered on the **4562** screen (accessible from the **Income** tab of the **Data Entry Menu**) flows to the applicable sections of Form 4562. The information is also used to calculate data for other related forms and schedules.

## Form 4562

Because the data entered on the **4562** screen flows to Form 4562, you should not have to use screens **6, 7, 8, and 9** (4562 Parts 1 through 6) *unless* entering a pre-prepared return with no supporting documentation. Data also flows, as applicable, from the **4562** screen to Form 4797, Sales of Business Property, and Form 3468, Investment Tax Credit.

## Depreciation Schedules

Screen **4562** is used to create depreciation or amortization schedules for: Schedules A, C, E, and F; Forms 2106, 4835, and 8829; and tax returns of partners in a partnership and shareholders in an S corporation.

Depreciation data is also used for the Auto Expense Worksheets for Schedules C, E, and F, and Form 4835. To create an auto worksheet, see ["Auto Expenses" on page 173](#). To associate a depreciable asset with another screen in Drake Tax, see ["Associating One Screen with Another" on page 27](#).

## Entering Depreciable Assets

Use the **4562** screen to enter depreciation data. Enter each asset on a separate **4562** screen. (To open a new screen, press PAGE DOWN.)



Grid data entry can be used for the **4562** screen. Press F3 to switch to and from grid data.

## Required Fields

Required fields on the **4562** screen are described in [Table PER-12](#).

Table PER-12: Required Fields on **4562** Screen

Field	Description
<b>For</b>	Used for associating an asset with a form or schedule; see <a href="#">"Associating One Screen with Another" on page 27</a>
<b>Description</b>	Description of asset; this field supports 42 characters
<b>Date Acquired</b>	Date acquired
<b>Cost</b>	Depreciable basis of the asset (press F1 for further details)
<b>Method</b>	Depreciation method
<b>Life</b>	Class life; press F1 for a recovery-period listing



If **EXP** (section 179) is selected as the depreciation method, the useful life/recovery period entered in the **Life** field is used to calculate depreciation adjustments for Form 6251 (AMT). See ["Section 179 Expensing" on page 164](#) for more on section 179.



*New for 2023:* A method of "S/L-MM" is now automatically used on Form 4562 when the entered asset's **Life** is "27.5," allowing the asset to appear in the expected location on Form 4562. No calculations are affected, and the **Method** selected on screen **4562** is retained.

## Business Percent Use

The default business percent use is 100%. Enter a number in this field only if business percent use for the asset is not 100%.

If business use dropped to 50% or less, complete the **Business % use** field and select the **Recapture because...** box in the **Additional Asset Information** section. The program recaptures any excess section 179 or depreciation and carries it to Form 4797, Part IV, and to the “Other income” line on the form being associated with the **4562** screen.



- Do *not* enter a **Business % use** if the asset is for Form 2106, Form 8829, Schedule E, or an Auto Expense Worksheet (**AUTO** screen).
- **EXP** cannot be the selected method if the **Recapture** box is marked. The **Method** field must contain an acceptable IRS method for the recapture to be calculated correctly.

## Listed Property Type

A selection in the **Listed Prop Type** field is required for an asset that could be used for personal, entertainment, recreation, or amusement purposes. An entry here lists the asset as “Listed Property” in Part V of Form 4562. Depreciation limitations could apply.

## Prior Depreciation

The amount in the **Prior depreciation** field flows from the previous year (if the information is available); otherwise, enter this information directly.

## Section 179 Expensing

Drake Tax calculates the amount up to the established current-year limit (“Maximum amount” on Form 4562) for all properties expensed under the section 179 deduction. If a **Method** of **EXP – Section 179 – expense whole amount** is selected on more than one **4562** screen, the program begins expensing the items entered on the first applicable **4562** screen and continues expensing items from screens **4562** with a **Method** of **EXP**, regardless of which schedule lists the asset. The limitation occurs when the total of the expensed assets reaches the established limit for the current year (again, regardless of schedule).

To conform with IRS mandates, Drake Tax reports section 179 expense on the first Form 4562 generated with the return. If multiple activities have section 179 expensing, a section 179 summary

is produced on the first Form 4562. (All additional **4562** forms produced have only the “Section 179 expense deduction” lines completed.)



Section 179 expense cannot be claimed on assets related to a passive activity.

## Indicating Section 179 Expensing

Indicate section 179 expensing on the **4562** screen. In most cases, you do not have to use screen **6**, which contains override fields for Form 4562, Part I, Election to Expense (section 179). If screen **6** contains a section 179 expense override, clear that field and enter the amount on the **4562** screen. The entry appears on Form 4562.

To expense the *entire* amount of an asset under section 179, select **EXP** as the depreciation method *or* enter the entire cost or basis in the **179 expense elected this year** field. Choose a **Method** and **Life** and dollar amount of depreciation. To expense only a *portion* of the tangible property under section 179, enter all information as if depreciating the full amount, then enter the amount to expense in the **179 expense elected this year** field.

If the asset is listed property, make a selection from the **Listed Prop Type** drop list in the upper-right section of the **4562** screen. A selection from that list carries the information to Part V of Form 4562.



For returns being prepared in Drake Tax for the first time, the prior section 179 expense must be entered manually for the depreciation to be calculated correctly. In the future, the **179 expense allowed in prior years** field will be updated based on program calculations.

## Indicating Prior-Year Section 179 Expensing

If you enter an amount in the **179 expense elected in prior years** field ([Figure PER-62](#)), you must also enter an amount in the **179 expense allowed in prior years** field.

Figure PER-62: Section 179 Expenses Elected and Allowed

179 expense elected in prior years.....	<input type="text"/>
179 expense allowed in prior years.....	<input type="text"/>

If your taxpayer was *allowed* the whole amount *elected*, the entry in the fields should be the same; if the taxpayer was not allowed all the 179 expense elected, enter the amount allowed on the **179 expense allowed in prior years** field.

If the taxpayer expenses assets using section 179, the program produces a Section 179 Business Income Limit worksheet (“DEPR – Wks 179 Limit” in View/Print mode).

## Investment Credit Codes

If an investment credit code is required, select the code from the **Investment credit code** drop list in the **Additional Asset Information** section of the **4562** screen.

## Asset and Department Numbers

The **Asset number**, **Department number**, and **Asset Category** fields in the **Fixed Asset Manager** section of the **4562** screen are for tracking purposes in the Fixed Asset Manager and can be used in reports.

## Land Cost

Use the **Land cost** field to enter cost/basis of the land. An amount entered here should *not* be included in the cost/basis of the asset. For example, if the purchase price including the land was \$100,000 and the cost of the land was \$10,000, you would enter \$10,000 in the **Land cost** field and \$90,000 for **Cost** at the top of the screen.

## Depreciating Home Used for Business

If a **4562** screen is to be associated with a Form 8829, Business Use of Home, select **8829** from the **For** drop list at the top of the **4562** screen and do not make an entry in the **Business % use** field. If the home was the taxpayer's main home, mark **Main home for Form 8829** (in the **Additional Asset Information** section on the left side of the **4562** screen).

## Amortization

Select an amortization code from the **Code section** drop list on the **4562** screen, in the **Amortization** section. To allow the extra \$5,000 deduction in the first year of amortization, mark the **Elect additional first-year deduction** check box. The method of depreciation selected must be **AMT**.

## State Depreciation Information

For state-specific depreciation information, make selections from the applicable drop lists under the **State-Specific Information** section (in the bottom-left quadrant of the screen).

## FL, IN, KY, and PA

State-specific fields for Florida, Indiana, Kentucky, and Pennsylvania returns are located at the bottom of screen **4562**.

- **Occurrence of Schedule** field — Choose the occurrence of the state form or schedule to which the asset relates (default is “1”). For PA entries, this field applies only when the asset is sold.
- **Schedule form data flow** list — Select the state form or schedule to which the asset data should flow. For PA, this field applies only when the asset is sold.
- **Removal Method** field (*FL only*) — Press F1 to view valid entries. If left blank and a 2023 **Date sold** is entered, the program uses the default “02 – FL Sold.”
- **Indiana County** — Select the Indiana county where the asset is located from the drop list.

## Placed in Service/Like-Kind Exchanges

The **4562** screen has the following placed-in-service override fields (located toward the center of the screen):

- **Force convention** — MQ (mid-quarter) or HY (half-year). If **MQ** is selected, the program calculates which quarter to use.
- **Do not use MACRS % tables** — Options include **Qualified Indian Reservation Property**.
- **Qualified Nonresidential Property** — Certain real property placed in service from 2011 to 2014 qualifies for special tax treatment. If this asset qualifies for this special tax treatment, indicate which class of property it is.

## Stopping Depreciation on an Asset

An entry in the **Date taken out of service IF NOT SOLD** field ([Figure PER-63](#)) stops calculation of depreciation on this asset.

Figure PER-63: Stop Depreciation on Screen **4562**

Additional Asset Information	
Date taken out of service IF NOT SOLD.....	10-24-2022
<input checked="" type="checkbox"/> Do Not Update to next year	<input type="checkbox"/> Abandoned
<input type="checkbox"/> Recapture because business use dropped to 50% or less	
<input type="checkbox"/> Main home for Form 8829	
<input type="checkbox"/> Investment credit code.....	<input type="button" value="▼"/>

The program continues to keep track of this asset when you update this year's return into next year's program unless you mark the **Do Not Update to next year** check box.

## Depreciating Sold Assets

To indicate the sale of an asset for depreciation purposes, complete the applicable fields in the **If sold** section of the **4562** screen ([Figure PER-64 on page 169](#)).



No depreciation can be claimed for an asset bought and sold in the same year; should this data be entered on screen **4562**, no Form 4562 is generated for the offending asset. Same-year sales must be entered instead on screen **4797**.

## Group Sales

A group sale is when more than one asset is sold in a single transaction.

Go to the **4562** screen that belongs to the *first* asset in the group sale. In the **If sold** section, enter the:

- **Date sold**
- **Group sale number** — Indicate which sales group the asset belongs to. Enter 1 unless there are multiple sales groups in the return, in which case, enter 1 if the asset is part of the first group, 2 for the second group, etc.)
- **Group sales price** — Total sales price of the group
- **Group expense of sale** — Total expenses for the respective group sale
- **(optional) Fair market value of THIS asset**
- **(optional) Expense of sale for THIS asset**

Figure PER-64: The **If Sold** Section of Screen 4562

If Sold		F	ST	
Date sold.....		11-12-2023		
Sale price.....				
Expense of sale.....				
Form 4797, line 26d depreciation.....				
Form 4797, other Part III depreciation.....				
Installment sale MFC.....				
Like-kind exchange MFC.....				
<input type="checkbox"/> 1099-S <input type="checkbox"/> Sold to related party <input type="checkbox"/> Involuntary conversion <input type="checkbox"/> Do not carry personal use to Form 8949 <input type="checkbox"/> <input type="checkbox"/> Include gain/loss on 4797, line 1b or 1c (partial disposition MACRS) <input type="checkbox"/> Qualifying state-only like-kind exchange				
<b>Group Sale Information</b>				
Group sale number.....		1		
Group sales price.....		50000		
Group expense of sale.....		2500		
Fair market value of THIS asset.....		=		
Expense of sale for THIS asset.....		=		

For the other assets sold in the group, enter the:

- **Date sold**
- **Group sale number**
- *(optional)* **Fair market value of THIS asset**
- *(optional)* **Expense of sale for THIS asset**

Drake Tax reports the sale as appropriate on Form 4797 and Schedule D. A **Group Sale Summary Report** ("Group Sale Summary" in View/Print) is generated for informational purposes.

Figure PER-65: A **Group Sale Summary Report**

Group Sale Summary Report										
(This page is not filed with the return. It is for your records only.)										
Name(s) as shown on return										
EEVIE & BOJU FILANOWSKI										
Group Sale Information:										
DESCRIPTION: GROUP SALE 01			SALE PRICE: 50,000							
DATE SOLD: 11-12-2023			EXPENSE OF SALE: 2,500							
TYPE OF SALE: STANDARD										
<b>DESCRIPTION</b>	<b>ACQUIRED</b>	<b>PROP TYPE</b>	<b>SALE PRICE</b>	<b>COST/BASIS</b>	<b>EXPENSE</b>	<b>DEPR.</b>	<b>GAIN/LOSS</b>	<b>RECAPTURE</b>	<b>NET</b>	
DOG CRATES	03-21-2022	1245	2,381	1,500	119	198	960	198	762	
BASKETBALL COURT	05-18-2022	1250	47,619	30,000	2,381	767	16,005	0	16,005	
<b>TOTAL</b>			<b>50,000</b>	<b>31,500</b>	<b>2,500</b>	<b>965</b>	<b>16,965</b>	<b>198</b>	<b>16,767</b>	



Note the **Qualifying State Only Like-Kind Exchange** check box in [Figure PER-64 on page 169](#). Mark this box only if the asset does *not* qualify for like-kind exchange treatment on a federal return but *does* for a state return and you want to continue depreciating the basis of the asset instead of including it with the new asset.

## — Fair Market Value —

If the taxpayer is selling multiple assets in group sale, in order to prevent the program from allocating a sales price based on the cost of *each* asset, use the **Fair market value of THIS asset** override field for higher-valued assets and older assets, and let the program allocate the remaining sales price to the remaining assets.

If you enter a fair market value for *each* asset, then the total must equal the **Group sales price**.

## Form 4797, Sales of Business Property

If data is entered for **Date sold** and **Property type**, the asset data flows to Form 4797, Sales of Assets. If only the **Date sold** field contains data, nothing flows to Form 4797.

For a Section 1250 property, an entry in the **Form 4797, line 26d depreciation** field flows to that line of Form 4797. An entry in the **Form 4797, other Part III depreciation** field flows to the appropriate line of Form 4797, depending on the property type.

## Installment Sales

Unlike Form 4797, Form 6252, Installment Sale Income, is not generated automatically if the **If sold** fields are completed. For information on entering installment sales, see [“Reporting Installment Sales” on page 66](#).

## Depreciation Elections

**Screens: 10, ELEC** Two screens are used for indicating depreciation elections. Use screen **10** to elect out of bonus depreciation for some or all of the assets placed in service in 2023. You also can access this screen for an asset by clicking the **Additional Depr Elections** link on screen **4562** for that asset.

Alternately, open the **ELEC** screen, available from the **Miscellaneous** tab of the **Data Entry Menu**, and use the check boxes in the **Form 4562** section for other Form 4562 elections.

For more on the **ELEC** screen, see [“Safe Harbor Election for Buildings” on page 178](#).

## Federally Declared Disaster

**Screen:** If the **Disaster assistance property** check box in the **Federal declared disaster area** section of screen **4562** is marked, the property qualifies for additional section 179 deduction and also for 50% bonus depreciation. A selection here increases the section 179 limits on Form 4562, lines 1 and 3, accordingly.

Marking the **GO Zone Extension property** check box will not change any 2023 calculations in Drake Tax. The box remains on the screen to alert the preparer if the asset is sold and anything must be recaptured due to additional GO Zone deductions in a prior year. Note that as of 2023, all federal GO Zone provisions have expired.

## Form 4562 Sort and Report

All instances of depreciable assets entered on screen **4562** can be sorted and saved as a report. Open the return, and from the selector field of the **Data Entry Menu**, type **SORT** (or on the **Income** tab of the **Data Entry Menu**, right-click the **4562** link, and click **Sort Depreciation Items**) to open the **Sort Depreciation Items** dialog box. Choose a category to **Sort By** and a **Sort Order**, and when finished, click **Save** to send the report to the Report Manager.

From the **Home** window menu bar, click **Reports > Depreciation List**, select the client from the **Depreciation List Client Selection** dialog box, and click **Next**. In **Depreciation Listing**, you can choose to **Print** the report or **Export to File**. Exported reports are automatically saved as a .CSV file and stored in as **Drake23\Reports\DEPRLIST .CSV** on the hard drive to which Drake Tax 2023 is installed.

## Form 4562 Import

With the 4562 Import function, you can import depreciable assets into Drake Tax from Excel worksheets, 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.

## Completing the Spreadsheet

Take the following steps to import data on depreciable assets from an Excel worksheet into the **4562** screens of Drake Tax:

1. Open a return in Drake Tax, and from the **Data Entry Menu** toolbar, click **Import > Form 4562 Import**. Click the **Form 4562 Import information and sample spreadsheet** link to open Drake Software [Knowledge Base article “15982: 4562 – Import Assets From](#)

[Spreadsheet.”](#) Scroll to the bottom of the window and download the [D21 – D23 – 4562 Template \(1040\)](#).

2. Complete the worksheet with your data and save it to a convenient location (such as the client’s file in the “DT” folder of Drake Tax or to the client’s Drake Documents file).



If you choose to make your own worksheet, you must include specific columns in a specific order. Each column in the worksheet represents a field on the **4562** screen in Drake Tax. Compare your worksheet to the Knowledge Base worksheet to ensure you have all the required columns in the required order.

3. Click **Next**.
4. In Step 1 ([Figure PER-66](#)), from the **Import File Name** line, click **Browse** and find the worksheet, select it, and click **Open** (or select it and double-click).
5. In Step 2, choose the row on which to begin the import. For instance, if the first row of the worksheet contains column headers, begin the import with row **2**.
6. Click **Next**, then **Import**.

Figure PER-66: Importing 4562 Information

Form 4562 Detail Information (1 Records)										
	For	MFC	Description	Date Acqui...	Cost Basis	Busi...	Use...	Liste...	Prop...	Buil...
1	For	MFC	Description	DATEACQ...	Cost / Basis	Busi...	X	LIST...	XX	X
2	C	1	desc	10/12/2010	\$50,000.00	100	X	V	45	X

When the import is complete, the tax program is opened to the 4562 Existing Forms List.

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).

## Auto Expenses



**New for 2023:** More than six vehicles can now be recorded and tracked for Form 4562, Part V, Section B. To track multiple vehicles, create one screen **AUTO** per vehicle or additional screens **9** (4562, Parts V(B) and V(C)) as needed; vehicle usage data entered on screen **AUTO** should *not* be duplicated on screen **9** and vice versa. Vehicles in excess of six are reported on a Federal Supporting Statement that is transmitted with the return

Screen:  
**AUTO**

The Auto Expense Worksheet (**AUTO** screen) is used for calculating automobile expenses related to certain types of income. The program calculates the mileage rate automatically.



Enter data for Schedule C, Part IV, "Information on Your Vehicle," on the **AUTO** screen. (Click the **AUTO** link on screen **C**.) Use the **For** drop list and the **MFC** field to associate the **AUTO** screen with the correct **C** screen.

## Applying Expenses to a Form

**AUTO** screens can be applied to Schedules C, E, and F; Form 4835; and Schedules K-1 from partnerships. Use a separate screen **AUTO** or **9** for each vehicle. An Auto Expense Worksheet ("Wks Auto") is generated in View/Print mode for each **AUTO** or **9** screen created.

To apply an **AUTO** or **9** screen to a specific form, select the form type from the **For** menu. Use the multi-form code (**MFC**) box as necessary; see ["Associating One Screen with Another" on page 27](#) for more on using the **For** and **Multi-form code** boxes in Drake Tax.



Enter unreimbursed partnership auto expenses on the **AUTO** screen by selecting **K1P** from the **For** drop list, which sends the expenses to page 2 of Schedule E, Supplemental Income and Loss.

## Mileage

Use the applicable field in the **Current-Year Mileage** section of screen **AUTO** for business miles driven in 2023.

## Prior-Years Mileage

The **Prior Years Mileage** section allows you to keep a running total of the mileage covered by the vehicle since being placed in service. The total amount is used to calculate the cumulative business percentage for the life of the vehicle. It is also used to calculate the business cost and sales price when the vehicle is sold.

Prior-year mileage data is updated each year when you update the return from Drake Tax 2022.



The business mileage fields must be completed to compute business use percentage for depreciation (Form 4562).

## Office in Home

**Screen:** Enter information for Form 8829, Expenses for Business Use of Your Home, on the **8829** screen, accessible from the **Adjustments** tab.

## Applying 8829 Data to a Form

Screen **8829** can be applied to Schedules C, E, or F, Schedule K-1 for Partnership, or Forms 2106 or 4835. Select the form type from the **For** menu at the top of the **8829** screen. Use the **Multi-form code** box as needed (default is "1"). (See ["Associating One Screen with Another" on page 27](#).)

## Special Conditions: Form 2106

The multi-form code information must be modified slightly if the **8829** screen is being associated with a Form 2106, Employee Business Expenses and the spouse has a 2106 form. The program numbers all *primary taxpayer* 2106 forms before numbering the *spouse's* 2106 forms, as shown in [Table PER-13 on page 175](#).

Table PER-13: Screen **8829** Multi-Form Codes for Form 2106

If the 2106 is for ...	Enter code
Primary taxpayer	1
Primary taxpayer (and it is the primary taxpayer's <i>second</i> 2106)	2
Spouse (and the primary taxpayer does <i>not</i> have a 2106)	1
Spouse (and the primary taxpayer <i>does</i> have a 2106)	2
Spouse (and the taxpayer has <i>two</i> 2106 forms)	3



If a taxpayer does not fall into one of four categories, Form 2106 should be completed *only* if it is needed for a state return. See "[Employee Business Expenses](#)" [on page 108](#) for more.

## Depreciation of Home

Generally, home depreciation data should be entered under Part III of the **8829** screen. If the home was placed into service *during the current tax* year, however, leave Part III blank, start a **4562** screen for the home, and enter the data shown in [Table PER-14](#).

Table PER-14: Screen **4562** Fields to Complete for First-Year 8829

Field	8829 Information or Text to be Entered
<b>For</b>	Select <b>8829</b> .
<b>Multi-form code</b>	Enter the instance of Form 8829 to be associated with this <b>4562</b> screen. (See " <a href="#">Associating One Screen with Another</a> " <a href="#">on page 27</a> .)
<b>Description</b>	Enter a description of the asset.
<b>Date Acquired</b>	Enter the date the home was placed in service.
<b>Cost</b>	Enter the smaller amount — the cost/basis or the fair market value. (This amount would normally be entered in Part III of the <b>8829</b> screen.) Do not include the cost of the land.
<b>Business % Use</b>	Leave this field blank; default is 100%.
<b>Method</b> (Federal column)	Select <b>SL - Straight Line</b> .
<b>Life</b> (Federal column)	Enter the number 39.
<b>Land cost</b>	Enter the cost of the land only. This amount should not be included in <b>Cost</b> field above. (This amount would normally be entered in Part III of the <b>8829</b> screen.)

**Field****8829 Information or Text to be Entered****Main Home for 8829**

Select this box if the asset was the main home. This information is posted to the bottom of Form 8829 when the return is generated.



Other options from the **For** drop list on screen **8829** include **4835** and **E**. Under a narrow set of circumstances, a home office deduction on rental property is allowed, but only if the property meets Section 165 definition of a "trade or business." A disallowed deduction can lead to penalties and interest.

Review Pub. 597 for details.

## Net Operating Losses (NOLs)

This section explains how to enter carrybacks and carryforwards of net operating losses (NOLs) in Drake Tax.

For information on AMT NOLs, see ["Tracking AMT NOL Carryovers" on page 177](#).

### Carrybacks from Future Years

**Screen:** Enter NOL carryback amounts from future years in the **NOL carryback** field in the **Schedule 1** section of screen **3** ([Figure PER-67](#)). This field can also be used to amend the current-year amount or to adjust carryback amounts calculated from the **LOSS** screen.

Figure PER-67: **NOL carryback** Field on Screen **3**

8a	NOL carryback (enter NOL carryforward amounts on screen LOSS).....	<a href="#">LOSS</a>
----	--------------------------------------------------------------------	----------------------

An amount entered here flows to the "Net operating loss" line of the "Other income" section on Schedule 1. Click the **LOSS** link as needed to access the **LOSS** screen.



Only farms and insurance companies can carry a loss back; all other taxpayers must carry all losses forward.

## Carryforwards from Prior Years

**Screen:** **LOSS** Use the **LOSS** screen to enter NOL carryforward amounts from prior years. In the **Regular Tax** section, enter amounts for each year using the **Available carryforward** and **Used Prior to 2023** columns on this screen.



Never add a **LOSS** screen for a current-year NOL. The program carries forward any current-year NOL and displays the carryforward on the "Wks CARRY" worksheet. The results of your entries are reflected on the "Wks NOLCO" worksheet. Both of these worksheets are available in View/Print mode.

## Carryovers on Form 1045

**Screens:** **1045, NOL** Form 1045, Application for Tentative Refund, includes Schedule A (NOL) and Schedule B (NOL Carryover). Use the **NOL** and **1045** screens, accessible from the **Other Forms** tab, to enter amounts for these schedules into Drake Tax.



The fields in the **Schedule A** section of screen **NOL** are mostly override fields. Entries override system calculations for Schedule A.

## Carryforward Only

To indicate that the taxpayer elects to carry an NOL forward and not back, go to the **NOL** screen and select **Election to carry forward ONLY** in the **Schedule A - NOL** section. When the return is generated, it includes an ELECTIONS statement, stating that the taxpayer is electing under section 172(b)(3) to relinquish the entire carryback period.

## Tracking AMT NOL Carryovers

**Screen:** **LOSS** For taxpayers with an alternative minimum tax (AMT) net operating loss (NOL) that you need to carry back two years so the taxpayer qualifies for a refund, or carry forward a year to offset taxes, Drake Tax calculates and tracks these carrybacks and carryforwards with the **Alternative Minimum Tax** section of the **LOSS** screen. The **LOSS** screen is accessible from the **Other Forms** tab of the **Data Entry Menu**.

Drake Tax automatically calculates line 11 of Form 6251, Alternative Minimum Tax – Individuals, and tracks the AMT NOL with a Net Operating Loss Carryover/Carryback Worksheet (available as "Wks NOL" in View/Print mode).

## Election Options

**Screen:** The **ELEC** screen, accessible from the **Miscellaneous** tab of the **Data Entry Menu**, has check boxes to indicate “elections” from the IRS code. If any boxes on this screen are marked, Election pages (“ELECTION”) listing the elections are generated with the return and accessible in View/Print mode. To attach an additional statement detailing an election, go to the **SCH** screen and select **E – Election Explanation** for the type of schedule. (For more on unformatted schedules, see [“Unformatted Schedules” on page 217](#).)

### Safe Harbor Election for Buildings

A check box near the top of the **4562** screen, **Building qualifies for Section 1.263(a)-3(h) election**, applies a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced in View/Print mode and the building description as entered in the **Description** field will be included in the election statement.



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.

### Paycheck Protection Program

Use screen **PPP2** (Rev. Proc. 2021-48 Statement) to produce a statement reporting the entity’s Paycheck Protection Program (PPP) loan forgiveness, indicating when and how the entity reported this forgiveness.

## Special Returns

This section explains how to complete the following return types in Drake Tax:

- Amended and superseded returns
- Extension applications:
  - Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
  - Form 2350, Application for Extension of Time To File U.S. Income Tax Return For U.S. Citizens and Resident Aliens Abroad Who Expect To Qualify for Special Tax Treatment
- Form 1040-NR, U.S. Nonresident Alien Income Tax Return

- Form 1040-SR, U.S. Tax Return for Seniors
- Form 1040-SS, U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico)
- Foreign account information (such as FinCEN Form 114 and Form 8938)

## Amended and Superseded Returns



A return must be established in Drake Tax before an amended or superseded version can be created. If the original return was created using a different program, you must recreate the return in Drake Tax before amending the return. (Drake Tax will not duplicate incorrect calculations.)

1040, 1040-NR, 1040-SR, and 1040-SS returns can be superseded in Drake Tax.

Beginning tax year 2022, amended 1040-NR returns may be e-filed, even if the original return is paper filed.

Beginning tax year 2021, amended 1040 (1040-X) returns could be e-filed, even if the original return was paper filed. This includes 1040-SR, 1040-SS, and 1040-PR returns. Note that 1040-SS and 1040-PR returns are not available prior to Drake Tax 2022. 1040-PR returns are available in Drake Tax 2022 only.

IRS e-file rules allow up to three amended returns to be e-filed each year; this rule applies to superseded returns as well. A combined total of three superseded *or* amended returns can be e-filed for each taxpayer before the remainder must be paper filed. As an example, if the taxpayer e-files one superseded return, they can e-file up to two amended returns only, as both superseded and amended returns count toward the same total.



To e-file an amended 2022 return, you must use Drake Tax 2022; for 2023 amended return, use Drake Tax 2023.

An amount due can be paid electronically with the return by direct debit using the **PMT** screen or by a debit card or credit card through the Drake Software e-Payment Center. If the 1040-X return is e-filed and the amount due is paid by check, the payment must be accompanied by Form 1040-V, Payment Voucher, and mailed to the appropriate address for 1040 vouchers; if the 1040-X is paper filed and the balance due is paid by check, the *entire return*, along with Form 1040-V and the enclosed payment, must be mailed to the appropriate address for 1040-X returns.



Refer to the most recent IRS instructions for Forms 1040-X and 1040-V before sending any payment by mail.

Refunds from e-filed 1040 amended and superseded returns can be distributed to taxpayers via direct deposit. To indicate that a refund is to be sent using direct deposit, choose the appropriate **1040-X** check box on the **Deposit refund from** line of screen **DD**.

Refunds for paper-filed 1040 amended and superseded returns, as well as other amended and superseded return types, will still be sent via check.

To file a 1040-X electronically, produce the 1040-X in Drake Tax. (See ["Creating Amended and Superseded Returns,"](#) following.)

## Creating Amended and Superseded Returns



Complete the following steps *before* making any changes to the return. Failure to properly adhere to the following procedure may result in an amended or a superseded return with incorrect data.

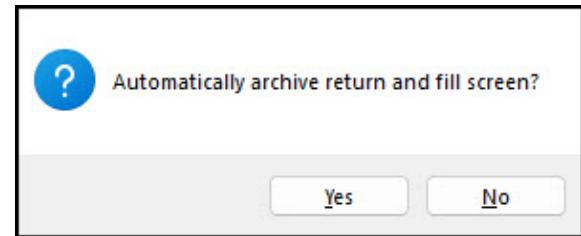
### Screen:

**X**

A **superseded** return is a modified return filed subsequent to the originally filed return and one that is filed within the filing period (including extensions). By contrast, an **amended** return is a corrected return filed subsequent to the originally filed return and one that is filed after the expiration of the filing period (including extensions).

To create either an amended or superseded return in Drake Tax:

1. Open the return to be amended or superseded.
2. Open screen **X**. When you open screen **X** for the first time, you are asked if you want to automatically have the screen completed and the current return archived (figure right). Drake Tax recommends selecting **Yes**.



Selecting **Yes** automatically completes screen **X** for the federal 1040 return. A copy of the current return is also saved to the Archive Manager. Note that regardless of whether you choose to have screen **X** completed automatically or manually, the **Explanation of Changes** pane must still be answered. The **Superseded return** box at the bottom of screen **X** must also be marked for taxpayers filing a superseded return instead of an amended return.

- (*superseded returns only*) Drake Software recommends marking the **Print "Superseded Return" on front of return** option, as there is no indicator on any 1040-series form that differentiates an original return from a superseded return.
- (*1040-SS returns only*) **Superseded** must be selected from the **If this is not the original return...** drop list on screen **SS**.



If you choose to *not* have Drake Tax automatically complete screen **X** and archive the current return, Drake Software advises you to make a manual backup of the current return before proceeding. (From View/Print mode, click **Documents > Archive Client Return**.)

To amend a state return, navigate to the state's amended screen, and select **Yes** when prompted to complete the amended screen and archive the current state return. State returns cannot be superseded.

From here, make any necessary changes to the return on the applicable screens, and then retransmit the return. (See [“e-Filing Amended and Superseded Returns.”](#) later on this page.)

## — Preparer Number Drop List —

If the person preparing the amended return is different from the preparer of the originally filed return, make a selection from the **Preparer of amended return (if different from screen 1)** drop list on screen **X**. An entry here overrides the selection made during Preparer Setup and uses the firm associated with the preparer entered; the ERO will also be the entered preparer.

If no preparer number is indicated in this field, the program uses preparer number “1” by default. If this return is your own return or is a preprepared return, enter **None** in this field and the preparer and firm information will be blank.

## e-Filing Amended and Superseded Returns

To retransmit an amended return after all necessary changes have been made:

1. *(if there is a balance due)* On screen **PMT**, mark the correct **1040-X** box (the first one if this is the first time the return is being amended or superseded; otherwise, mark the second or third check box) and complete the details for payment.
2. Complete the **PIN** screen. Update the **PIN signature date**. (It should not be the same date as the original return.) The taxpayer must sign Form 8879 before the 1040-X is transmitted. Select the appropriate check box indicating if this is the first, second, or third amended or superseded return.
3. Open the **EF** screen and, again, select the appropriate **1040-X** or **Superseded** box (along with any amended state returns, if appropriate).
4. Transmit the return.



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Make a backup of a return before you change any data. You can create both a PDF copy and a backup client file by clicking **Documents > Archive Client Return** in View/Print mode. See the [2023 Drake Tax Manual](#) for more information.

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## Extensions



*New for 2023:* Extensions for federal 1040-series returns and state individual returns can now be e-filed in batches by going to the **Home** window of Drake Tax and selecting **EF > Prepare Extensions**. See ["Batch Extensions" on page 16](#) for more information.

**Screen:** To apply for an extension using Drake Tax:  
**EXT**

1. Open screen **EXT** on the return for which the extension application is being filed.
2. Make the applicable selection from the **4868** drop list (if filing Form 4868) or the **2350** drop list (if filing Form 2350), and enter all applicable information. Selections are described in [Table PER-15](#).

Table PER-15: **Extension Forms** Screen Selections for Forms 4868 and 2350

Code	Description
X	Produces Form 4868 or Form 2350, whichever is selected
B	Produces Form 2350. Taxpayer's name and address are printed at the bottom of the form.
P	Produces Form 2350. Taxpayer's name, preparer's name, and firm address are printed at the bottom.

## e-Filing an Extension

To e-file an extension application, complete the **EXT** screen, and then select the applicable form number from the **Federal E-File Override** section of the **EF** screen (accessible from the **General** tab). For more information on the **EF** screen, refer to the [2023 Drake Tax Manual](#).

## ETD Messages

Before a 1040 extension can be e-filed, it is necessary to clear all of the messages shown on the ETD\_MSG page in View/Print mode. Because you are not sending the actual return, it is not necessary to address other EF messages. *Only the ETD\_MSG page must be addressed.*

## Payments

Use the **EXT** screen to indicate the amount being paid with the extension.



If there is a balance due for the extension and the taxpayer would like to pay by check, mark the **4868** drop list at the top of the **EXT** screen, and fill out and mail the Form 4868 voucher with the check.

Extension payments with vouchers *cannot* be made electronically.

Enter the **Amount paid with extension** (red rectangle in [Figure PER-68](#)), or if the entire amount of tax is being paid with the extension, mark the **Taxpayer is paying the entire amount of tax due** check box.

Figure PER-68: Payment-Related Fields on Extension Screen

Extension Forms		Pay balance due with credit card (MC, Visa, Disc., AmEx.)		
4868...	<input type="button" value="X"/>	2350...	<input type="button" value="▼"/>	<a href="#">Video: How to File Extensions</a>
Amount paid with extension.....				1500
<input type="checkbox"/> Taxpayer is paying the entire amount of tax due <input checked="" type="checkbox"/> Extension was previously filed; ready to file tax return				



If the extension has been filed without the return, before you e-file the actual return, open the **EXT** screen and mark the box labeled **Extension was previously filed; ready to file tax return** (blue box in [Figure PER-68](#)).

## State and City Extensions

**Screen: STEX** ([Figure PER-69 on page 184](#)), accessible from the **States** tab of the **Data Entry Menu**, gives you a place to go to prepare any and all state or city extensions.

Figure PER-69: **STEX** Screen for State and City Extensions

Mark the first check box at the top of the **State Extensions** tab (red circle in [Figure PER-69](#)) of the **STEX** screen to prepare all eligible state and city extensions. Mark the second check box to generate “\$0” extensions for those states or cities that allow or require an extension to be filed even when no payment is due.

To send a payment with a state or city extension, select that state or city from the drop lists in the **State/City** column. Supply a breakdown of the payment by clicking the **Extension Payment Worksheet** link for that state or city. Close the **Extension Payment Worksheet** tab and the calculated amount from the worksheet appears in the **Payment Amount** field of the **State/Cities Extension** tab. If desired, override that amount by entering an amount in the **Payment Amount** override field.

In the **States/Cities Requiring More Information** section of the **State/City Extensions** tab are links to states and cities that require more information than is available from the **STEX** screens.

## — Multiple/Additional Products —

For extensions of returns for states that require an LLC (Limited Liability Company) number, and a taxpayer that has more than one LLC, enter a number in the **LLC/MFC** column (blue circle in [Figure PER-69](#)) that corresponds to the screen that contains the LLC number. For instance, if a California taxpayer has two limited liability companies, and the extension being requested corresponds to the second CA screen, then type 2 in the **LLC/MFC** column of the **STEX** screen.

Some states (New Hampshire and Oregon) and cities (New York City, Kansas City) require a separate extension for taxpayer and spouse. For those instances, make a selection from the drop list of the **T or S** column.

## — Reason for Extension —

If the state requires a reason for requesting an extension, type that reason into the **Reason for Extension** text box. (Only Connecticut, Georgia, Kentucky, New Mexico, and Pennsylvania require such a statement.) If the state does not require such a statement, nothing typed into the **Reason for Extension** text box flows to the state return.

## — Filing Regular Returns —

When it is time to file the regular return, click the **Amount Paid with Extension** tab and mark either the **All extensions listed were previously filed...** check box at the top of the screen to file *all* available state/city returns that were previously extended or, to file specific returns, select the relevant **Extension was previously filed...** boxes on the right side of the screen. This is required for the amount paid with the extension to flow to main state return.



Any information entered on a state extension screen overrides any information entered on a **STEX** screen.

## Nonresident Alien Returns

**Screens:** Use the **NR** screens to enter data for Form 1040-NR, U.S. Nonresident Alien Income Tax Return. The 1040-NR in Drake Tax consists of three screens: screen **NR**, for the personal information used on Form 1040-NR; screen **NR2**, used to complete Schedule NEC, Tax on Income Not Effectively Connected With a U.S. Trade or Business, and screen **NR3**, for completing Schedule OI, Other Income. Access them on the **Foreign** tab or, from within any of the three screens, press PAGE UP or PAGE DOWN to move through the screens.

For information on e-filing FinCEN Report 114, see ["Screen 114" on page 186](#).

## Foreign Financial Accounts

**Screens:** In the **Foreign Accounts and Assets** section of the **Foreign** tab, the Foreign Accounts screen (**FRGN**) and **114** screen are used to complete and file FinCEN Report 114, Report of Foreign Bank and Financial Accounts, or Form 8938, Statement of Specified Foreign Financial Assets. Screen **8938** is also used in completing Form 8938. (See ["Screens 8938 and CO38" on page 186](#).)

Screens used to complete Form 5471, Information return of U.S. Persons with Respect to Certain Foreign Corporations, are also found of the **Foreign** tab.

Following are brief descriptions of these screens and their uses:

## FRGN Screen

**Screen:** Use the Foreign Accounts screen (**FRGN**) to complete FinCEN Form 114 and Form 8938.

### FRGN

From the **Account is for** drop list at the top of the **FRGN** screen, choose to prepare just FinCEN Form 114, just Form 8938, Part V, both the 114 and the 8938, or neither.

## FinCEN 114 Reports for Joint Accounts

The **J** option (for Married Filing Jointly returns) in the **TSJ** drop list on screen **FRGN** accommodates returns in which the taxpayer and spouse have separate banks accounts and a joint bank account. A selection of **J** generates two reports—one for the taxpayer and one for the spouse.

## Screen 114

**Screen:** The **114** screen can be considered the “PIN” screen for the FinCEN Form 114 transmission. It includes some miscellaneous filer information and required authorization information allowing FinCEN Form 114 to be e-filed. There are also fields included that override any of the third-party filing information that would otherwise automatically flow from **Setup > Firm(s)** and **Setup > Preparer(s)**.



You must mark the **FinCEN Form 114 is ready for transmission** check box at the top of screen **114** before the form can be e-filed.

## Screens 8938 and CO38

**Screens:** The fields on screens **CO38** and **8938** are used to complete Form 8938, Statement of Specified Foreign Financial Assets. The program makes the necessary calculations for completing Parts I and II. Information for Parts III and IV is entered on screen **8938**. Data for Part V flows from screen **FRGN**, and data for Part VI flows from screen **CO38**, Other Foreign Assets.

## Screen W7

**Screen:** Form W-7 is used for applying for or renewing a taxpayer's Individual Tax Identification Number (ITIN). See [“Claiming ODC for Form W-7 Filers” on page 136](#) for more information.

## Screen 1042

**Screen: 1042** Data from Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, should be entered on screen **1042**. For amounts paid on or after January 1, 2016, a U.S. financial institution or a U.S. branch of a foreign financial institution maintaining an account within the U.S. is required to report payments of the same type of income (as determined by the **Income code** in box 1) made to multiple financial accounts held by the same beneficial owner on separate Forms 1042-S for each account.

The **Chapter indicator** drop list is used to designate which chapter a withholding agent is reporting. Select which withholding agent is filing a given Form 1042-S from the **Chapter Indicator** drop list. Withholding agents must enter both a chapter 3 and chapter 4 **Status Code** regardless of the type of payment being made (in the **Withholding Agent** section of screen **1042**).

See IRS instructions for Form 1042-S for more details.

## Screen 8833

**Screen: 8833** Use the **8833** screens to complete Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b). This form must be used by taxpayers to make the treaty-based return position disclosure required by Section 6114. The form must also be used by dual-resident taxpayers to make the treaty-based return position disclosure required by Regulations Section 301.7701(b)-7. A separate form is required for each treaty-based return position taken by the taxpayer.

Click the **Line 6** tab at the top of the screen to enter an explanation of the treaty-based return position taken. Failure to disclose treaty-based positions carries a \$1,000 fine.

## Screen 8840

**Screen: 8840** Complete Form 8840, Closer Connection Exception Statement for Aliens, through screen **8840**. This form is used by alien individuals who meet the closer connection exception to the substantial presence test. Each alien individual must file a separate Form 8840 to claim the closer connection exception.

Note that Parts I, II, and III are located on the first screen. Click the **Part IV** tab at the top of the screen to complete that section of the form.

For more details on the substantial presence test and the closer connection exception, see Pub. 519, U.S. Tax Guide for Aliens.

## Screen 8843

**Screen: 8843** Screen **8843** (available from the **Foreign** tab of the **Data Entry Menu**) is used to complete Form 8843, Statement for Exempt Individuals and Individuals with a Medical Condition. The screen is divided into three tabs: **Part I**, **Parts II, III**, and **Parts IV, V**. The form is used by alien individuals to explain the basis

of a claim to exclude days of presence in the United States for purposes of the substantial presence test if the taxpayer was:

- An exempt individual
- Unable to leave the United States because of a medical condition or medical problem

Screens for **Parts II, III** and **Parts IV, V** are accessible from the tabs at the top of screen **8843**.

## Form 5471

Screens used to complete Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations, are also found on the **Foreign** tab. This form is used by certain U.S. citizens and residents who are officers, directors, or shareholders in certain foreign corporations. Taxpayers who must file this form are described in the IRS instructions.

Form 5471 can be e-filed with the 1040 return. File by the due date (including extensions) for that return.

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

## e-File FinCEN Form 114

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

In data entry, open screen **EF** and mark the **FinCEN 114 only** check box. Click **View** (or press **CTRL+V**). “FinCEN114” is indicated on the EF Status page in View/Print mode; “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.



- 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. This

report can also be completed on, and submitted through, the [BSA E-Filing System for the Financial Crimes Enforcement Network](#) website.

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

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## Form 1040-SR, Tax Return for Seniors

Available to many older Americans, Form 1040-SR is a four-page version of Form 1040 with fewer restrictions. Taxpayers (or their spouses) who reach their 65<sup>th</sup> birthday at any time during the tax year qualify for using the 1040-SR. The 1040-SR does not put a limit on interest, dividends, or capital gains, and it does not cap overall income.

Drake Tax automatically produces the 1040-SR when the taxpayer – or the spouse, if appropriate – is 65 or older (according to their date of birth entered on screen **1**).

Filers do not have to be retired to qualify.



- To have the program produce Form 1040 instead of the 1040-SR— even if the taxpayer (and spouse, if appropriate) is 65 and qualified for the 1040-SR—open the **PRNT** screen and select **Produce Form 1040 instead of 1040-SR**. To make the selection globally (for all 1040 taxpayers) from the **Home** window menu bar, go to **Setup > Options > Form & Schedule Options** tab, and make a selection from the **1040-SR suppress** drop list.
- To produce page 4 (the Standard Deduction Chart) of the 1040-SR, go to screen **PRNT** and select **Produce Form 1040-SR page 4**.

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## U.S. Territory Returns (Form 1040-SS)

1040-SS returns can be filed in Drake Tax; the following U.S. territory wage and tax statements are also supported:

- 499R-2/W-2PR, Commonwealth of Puerto Rico Wage and Tax Statement
- W-2AS, American Samoa Wage and Tax Statement
- W-2CM, Commonwealth of the Northern Mariana Islands Wage and Tax Statement
- W-2GU, Guam Wage and Tax Statement
- W-2VI, U.S. Virgin Islands Wage and Tax Statement

Use screen **W2PR** to enter Puerto Rico W-2 information. To enter information from territory W-2s *other than* Puerto Rico:

1. Complete the taxpayer's territory W-2 information on screen **W2**.
2. On the **Additional Entries** tab of screen **W2**, select the appropriate **W-2 for U.S. territories**.

To generate Form 1040-SS:

1. Open screen **SS** and confirm that the **Taxpayer is not required to file Form 1040 and is filing Form 1040-SS instead**.
2. Select the appropriate territory that the **Taxpayer is a bona fide resident of**.



Form 1040-SS is also available in Spanish. To see a list of all supported Spanish forms, turn to ["Spanish Forms" on page 194](#).

## Other Forms and Screens

Most screens described in this section are available from the **Other Forms** tab of the **Data Entry Menu**. The majority of forms listed here can be e-filed unless otherwise specified, and most can be obtained in Drake from **Tools > Blank Forms**.

## Form 461, Limitation on Business Losses

**Screen: 461** The Tax Cuts and Jobs Act (TCJA) added a limitation on the amount of losses from trades or businesses that taxpayers can claim each year; the CARES Act removed that limitation.

The TCJA limits deductions to only those deductions or losses that do not exceed income and gains by more than \$270,000 (\$540,000 for married taxpayers filing a joint return); excess deductions and losses are treated as part of the Net Operating Loss that is carried to next year. See Form 461 Instructions and IRS Publication 536 for more information.

Form 461 can be generated regardless of data entry by marking the **Produce Form 461** box on screen **PRNT**.

## 4506-Series Forms

**Screens: 4506, 456T** Forms 4506, Request for Copy of Tax Return, 4506-F, Identity Theft Victim's Request for Copy of Fraudulent Tax Return, and 4506-T, Request for Transcript of Tax Return, can be completed using the **4506** and **456T** screens in Drake Tax.

Any entry on **4506** causes Form 4506 to be generated; to have Form 4506-F generated instead, mark the **Generate 4506-F** box at the top of screen **4506**. Use screen **456T** for generating Form 4506-T.

Clean copies of all Forms 4506 can be accessed from **Tools > Blank Forms**.



Forms 4506 cannot be e-filed.

## Identity Theft

**Screen:** Screen **1403** allows you to help your client in the event of identity theft.

If someone has stolen a client's identity, or if the client believes such a theft has occurred and would like the IRS to mark their account to identify questionable activity, you can complete Form 14039, Identity Theft Affidavit, through screen **1403**, accessible through the **Other Forms** tab of the **Data Entry Menu**.

Form 14039 is not e-filable. Submit Form 14039, along with clear and legible copies of required documentation, using either mail or fax, but not both. Mailing *and* faxing this form will result in a processing delay.

You can also submit Form 14039 for a deceased spouse.

See **Screen Help** on screen **1043** for more details and for mailing and faxing instructions.

## 2025 – 2026 FAFSA Worksheet

**Screen:** Use the fields on screen **FAFS** (located on the **Miscellaneous** tab of the **Data Entry Menu**) to override the amounts generated by the program when printing the Free Application for Federal Student Aid (FAFSA) worksheet. This worksheet helps your client collect and organize financial information needed to complete the application. Log in to [studentaid.gov](https://studentaid.gov) to complete the FAFSA for a qualifying student.

## Source Document Guide

**Screen:** Should you find yourself questioning where to enter seldom used 1095-, 1098-, and 1099-series forms, open the **DOCS** screen from the **Miscellaneous** tab for direct links to relevant screens or helpful KB articles to aid you in deciding the most appropriate location to enter 1095, 1098, and 1099 information.

## Form 3115, Change in Accounting Method

Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either a taxpayer's overall accounting method or the accounting treatment of any material item.

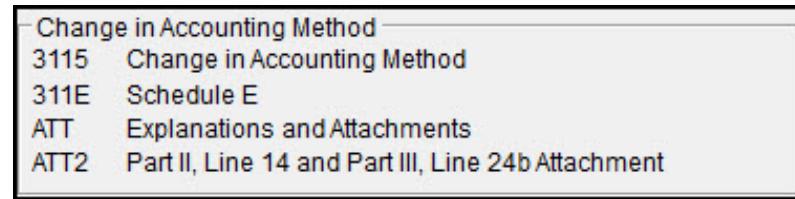
Form 3115 is eligible for e-file, but an additional copy of the form must be mailed to the IRS national office unless the Appendix of Rev. Proc. 2011-14 of other published guidance requires the copy to be filed with the IRS office in Ogden, UT. (See IRS instructions for details.).

Drake Tax customers can fill out and e-file Forms 3115 and related schedules and attachments for 1040 returns.

### Screens for Changing Accounting Method

Several screens may be required for completing Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the **Other Forms** tab of the **Data Entry Menu** ([Figure PER-70](#)).

Figure PER-70: Change in Accounting Method Screens



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

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

### — Multi-Form Codes —

All **3115** and related screens contain a **Multi-form code** text box that allows you to link a screen or attachment to a particular Form 3115.

If submitting more than one Form 3115, assign a multi-form code to each new application you create in Drake Tax. The first should be "1," the second "2," and so on. When using other screens, such as the

**311E** or **ATT** screens, you can use those numbers to indicate which instance of Form 3115 the **311E** or **ATT** screen should be associated with.



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

## Form 3115 Screens

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

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

You can access these **3115** screens by clicking a link at the top of any other **3115** screen.

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



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



View **Screen Help** for screen **3115** (select **Help** from the data entry screen toolbar or press **CTRL+ALT+?**) to access a link to the IRS instructions for Form 3115.

## Spanish Forms

The following forms are available in Spanish; to produce all applicable forms, select **Produce federal forms in Spanish (if available)** on screen **PRNT**:

- 1040
- 1040-NR
- 1040-SR
- 1040-SS
- 13844
- 14039
- 14039-B
- 2350
- 2848
- 4506
- 4852
- 4868
- 8453
- 8821
- 8857
- 8862
- 8878
- 8879
- 9000
- 9465
- In-house 1040 “Comparison” doc (done through screen **COMP**)
- In-house 1040 diagnostic “Summary” doc
- Schedule 1 (Form 1040)
- Schedule 2 (Form 1040)
- Schedule 3 (Form 1040)
- Schedule 8812 (Form 1040)
- Schedule A (Form 1040-NR)
- Schedule C (Form 1040)
- Schedule EIC (Form 1040)
- Schedule F (Form 1040)
- Schedule H (Form 1040)
- Schedule LEP (Form 1040)
- Schedule NEC (Form 1040-NR)
- Schedule OI (Form 1040-NR)
- Schedule SE (Form 1040)
- W-4
- W-7
- W-9

## Other Forms

[Table PER-16](#) lists screens for other forms available under the **Other Forms** tab that are not discussed elsewhere in this manual.

Table PER-16: Other Forms Available from **Other Forms** Tab in Drake Tax

Screen	Form	Notes
56	Form 56, Notice Concerning Fiduciary Relationship	Enter PIN and prior-year AGI, and indicate Form 56, on the <b>PIN</b> screen.
1310	Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer	If anything other than box <b>C</b> is selected in Part I of the screen, or if box <b>2a</b> is selected in Part II, the return cannot be e-filed.

Screen	Form	Notes
• <b>2120</b>	• Form 2120, Multiple Support Declaration	
• <b>8332</b>	• Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent	The rules for multiple support agreements still apply to claiming an exemption for a qualifying relative but they do not apply to claiming an exemption for a qualifying child. Supporting documentation can be attached to an e-filed return as a PDF. (See <a href="#">"Identity Theft" on page 191</a> for details.)
<b>8275</b>	• Form 8275, Disclosure Statement • Form 8275-R, Regulation Disclosure Statement	To print Form 8275-R, select <b>8275-R</b> at the top of the screen.
<b>8379</b>	Form 8379, Injured Spouse Allocation	By filing Form 8379, the injured spouse may be able to get back their share of the joint refund.
<b>8594</b>	Form 8594, Asset Acquisition Statement Under Section 1060	If this form is being amended, state the reasons for the change in the field provided.
<b>8697</b>	Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts	
<b>8815</b>	Form 8815, Exclusion of Interest from Series EE and I U.S. Savings Bonds Issued After 1989	
<b>8822</b>	Form 8822, Change of Address	This form is not e-filable.
<b>8857</b>	Form 8857, Request for Innocent Spouse Relief	Press PAGE DOWN to view all three screens.
<b>8862</b>	Form 8862, Information to Claim Earned Income Credit After Disallowance	To enter data for additional qualifying children, press PAGE DOWN to start a new screen <b>8862</b> .
<b>8866</b>	Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method	
<b>8948</b>	Form 8948, Preparer Explanation for Not Filing Electronically	For preparers whose clients choose not to have returns e-filed or when preparers meet certain conditions for exception. Form 8879 is suppressed automatically when Form 8948 is included in the return.
<b>8990</b>	Form 8990, Limitation on Business Interest Expense Under Section 163(j)	Enter data on screen <b>8990</b> only after all other 1040 return data has been entered and the return has been calculated.
<b>911</b>	Form 911, Request for Taxpayer Advocate Service Assistance	<ul style="list-style-type: none"> <li>If override data is entered on either <b>911</b> tab, all override fields must be completed for the program to produce Form 911.</li> <li>This form is not eligible for e-file.</li> </ul>
<b>970</b>	Form 970, Application to Use LIFO Inventory Method	Use the <b>SCH</b> screen for required attachments; select the appropriate code on that screen.
<b>982</b>	Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)	
<b>DEDM</b>	Deductible Mortgage Interest worksheet (for Form 1098)	Entries on this screen cause the program to produce "Wks DEDINT"

Screen	Form	Notes
W4	Form W-4, Employee's Withholding Certificate	This form is not e-fileable.
W4P	Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments	The taxpayer should provide this form to the payer of a pension or annuity so the correct amount of federal income tax will be withheld from payments to the taxpayer. This form is used by recipients of pensions, annuities, and certain other deferred compensation to tell payers the correct amount of federal income tax to withhold from payments.
W9	Form W-9, Request for Taxpayer Identification Number and Certification	Use Form W-9 to request the taxpayer identification number (TIN) of a U.S. person (including a resident alien) and to request certain certifications and claims for exemption.



To seek relief from late-filing penalties for a taxpayer serving in a combat zone or as a result of a terrorist or military action, go to the **MISC** screen, select the applicable code for **Special procession code for active military** drop list, and enter the date the taxpayer entered the combat zone.

## Making Changes On the Fly

When you make changes “on the fly,” you override program calculations and defaults (set by either the program or by the preparer in Setup) for the open return. This section focuses on actions performed *while in data entry* that “override” these global settings.

## Suppressing or Forcing Documents

The **PRNT** screen, available from the **Miscellaneous** tab of the **Data Entry Menu**, allows you to indicate which forms should and should not be generated for a return, regardless of program calculations and established defaults.

## Suppressing Items

[Table PER-17 on page 197](#) lists items that can be suppressed (prevented from being generated) using the **PRNT** screen in the 1040 package.

Table PER-17: Items that can be Suppressed from the **PRNT** Screen

Item	Description
State short form	Suppresses state short form, forcing state return to be printed on the state long form.
8801	Suppresses printing of Form 8801, Credit for Prior Year Minimum Tax-Individuals, Estates, and Trusts, if the form is not required. (This form is generated by default on certain returns that have a credit carryforward.)
Proforma/organizer	See “Organizers and Proforms” in the <a href="#">2023 Drake Tax Manual</a> .



- In the 1120-S, 1065, and 1041 packages, if the option **Include K-1 letter with returns** is selected at **Setup > Options > Client Communications** tab, go to the **COMM** screen to suppress the printing of the K-1 letter.
- Override options for printing filing instructions and envelope coversheets are on the **COMM** screen, available from the **Miscellaneous** tab of the **Data Entry Menu** in all packages.

## Forcing Items to Be Generated

The **PRNT** screen in a 1040 return allows you to “force” the program to generate items even if the program calculations and established defaults would otherwise not generate them.

These items are listed in [Table PER-18](#):

Table PER-18: Items that can be Forced from the **PRNT** Screen

Item	Description
Schedule LEP	Produce Schedule LEP to receive IRS communications in the selected language.  <b>NOTE:</b> The taxpayer will not immediately begin receiving communications from the IRS in their language of choice. Select <b>English</b> only if the taxpayer previously opted in to receive communications in an alternate language.
Form 9000	For taxpayers with impaired vision, choose to receive any written communication from the IRS in a variety of formats (only one choice per return): standard print, large print, Braille, audio (MP3 file), plain text file (TXT), Braille Ready File (BRF).  Audio, TXT, and BRF files are delivered on a USB flash drive.  <b>NOTE:</b> Select <b>Standard Print</b> only if a previous communication method was filed with Form 9000.

Item	Description
Schedule A	Choose from a drop list whether or not to have Schedule A, Itemized Deductions, printed with the return.
Schedule B	Schedule B, Interest and Dividend Income
Summary	Individual Diagnostic Summary; appears as SUMMARY under <b>Miscellaneous</b> tab in View/Print mode.
Compare	Tax return comparison; compares current-year return with returns from the two prior years and appears as <b>COMPARE</b> under the <b>Miscellaneous</b> tab in View/Print mode.
WK_SSB	Social Security Benefits Worksheet provided by IRS for Forms 1040 and 1040-A; allows taxpayer to see if any benefits are taxable.
Next-Year Depreciation List	Worksheet showing the depreciation to be carried forward to 2024.
Spanish Forms	Produce federal forms in Spanish (not all forms are available).
Tax Computation Worksheet	Print the worksheet that explains how the tax was computed on this return.
QBI Explanation	Produce an explanation of all activities included in the taxpayer's qualified business income deduction
1040 instead of 1040-SR	Produce Form 1040 instead of the 1040-SR – even if the taxpayer is 65 and is qualified for the 1040-SR
Form 1040-SR page 4	Page 4 of Form 1040-SR, the Standard Deduction Chart for the various filing statuses.
Form 1045 page 3	Form 1045, page 3, when taxable income is less than "0" and did not result in a current-year NOL.
Form 4562	Form 4562, Depreciation and Amortization
Form 4952	Form 4952, Investment Interest Expense Deduction
Form 6198	Form 6198, At-Risk Limitations
Form 6251	Form 6251, Alternative Minimum Tax for Individuals
Form 8283	Form 8283, Noncash Charitable Contributions
Form 8582	Form 8582, Passive Activity Loss Limitations
Form 8615	Form 8615, Tax for Certain Children Who Have Unearned Income
Form 8960	Form 8960, Net Investment Income Tax - Individuals, Estates, and Trusts
Form 8962	Form 8962, Premium Tax Credit
Form 8995/8995-A	Worksheets for reporting aggregation of business operations, allocations of losses, and income from agricultural and horticultural cooperatives.
Print EIC due diligence documents	Override the global setting from <b>Setup &gt; Options &gt; Administrative Options</b> tab.
DDASSIST	Produce the EIC Due Diligence Checklist as it appeared in 2022.
EIC Not Calculated Explanation	On returns where you believe EIC is due but hasn't been calculated, marking this box generates a Return Note stating why the EIC calculation is not being made.

Item	Description
PIN for preparer's alternative e-signature	If the alternative electronic signature is being used by the return preparer for this tax return, enter the five-digit PIN that was chosen in Preparer Setup. An entry here causes the preparer's name to be printed on the return. This should be used for the client's and preparer's printed copies when the return has been e-filed.
Date to print on returns	Override the default (current) date printed on the return set globally at <b>Setup &gt; Option &gt; Optional Items on Return</b> .
Print email address	Choose to print the email address entered on screen <b>1</b> on the return.
Print Overrides	See <a href="#">"Overriding Other Setup Options,"</a> following.

## Overriding Other Setup Options

Most setup options are selected from the **Home** window (**Setup > Options**). Many of these selections have "overrides" in the program, allowing you to change certain options on a per-return basis without changing the option globally (for all returns).

Many overrides are available on the **PRNT** screen (see ["Forcing Items to Be Generated" on page 197](#)) within a return. Overrides for envelope coversheets, letters, and filing instructions can be found on the **COMM** screen (see ["Overriding Letters Setup" on page 205](#) for more details). Both the **COMM** and **PRNT** screens are available from the **Miscellaneous** tab of the **Data Entry Menu**.

## Due Diligence Documents

Enter EIC due diligence information on screens **DD1** and **DD2**. The **PRNT** screen includes options to produce EIC due-diligence documents with a selected return. (This option is set globally from the **Administrative Options** tab in **Setup > Options**.)

## Printed Dates

A default due date for filing a return is printed on returns and all letters and filing instructions generated with a return.

To change the date printed on a return, from the **PRNT** screen, enter the desired date in the **Date to print on returns** override field. This date change cannot be set globally from Setup.

To change the date printed in the Client Results letter and the state and federal filing instructions, from the **COMM** screen, use the **Due date to be printed on letter and filing instructions** override field located at the bottom of the screen.

## Client Email Address

To have the client's email address printed on the return, select "Yes" from the **Print client email address on return** drop list on the **PRNT** screen. This address must be entered on screen **1** of the return. The address is printed on page 2 of the 1040, in the "Sign Here" section.

## State Overrides

In some circumstances, a state return that normally would not be generated is needed; in some cases, a state return that *would* be generated is *not* needed. To force state returns to be generated, or to suppress them, use the drop lists in the **State Overrides** section of the **PRNT** screen.

## Billing Format

The following global setup options are set from **Setup > Options > Billing** tab, and can be changed on the fly by using drop lists on the **BILL** screen in data entry:

Table PER-19: Options that can be Changed on the Fly from the **BILL** screen

Option	Choices
Billing option from Bill statement format drop lists	<ul style="list-style-type: none"><li>• Total only</li><li>• Forms and total</li><li>• Forms, prices, and total</li><li>• Bill by time</li><li>• Charge per form</li></ul>
Custom paragraph option	<ul style="list-style-type: none"><li>• None</li><li>• Top of bill</li><li>• Bottom of bill</li></ul>



For more on the **BILL** screen, see ["Overriding the Bill Amount" on page 203](#). Write a custom paragraph for the bill in the **Paragraph Content** text box at **Setup > Options > Billing** tab.

## Penalty and Interest Calculations

The following global setup options are for penalty and interest calculations on late-filed returns. These are set from **Setup > Options > Optional Items on Return** tab, and can be changed from within a return from the **LATE** screen, available from the **Taxes** tab:

Table PER-20: Penalty and Interest Options that can be Changed on the Fly

Global Setting	Available Overrides
Calculation of penalty and interest on all returns	If the global option is selected at <b>Setup &gt; Options &gt; Optional Items on Return</b> tab, it can be suppressed for a single return. If the global option is not selected, it can be forced for a single return.
Interest rates	Penalty and interest amounts can be entered manually for a single return to override program calculations based on updated or manually entered interest rates in <b>Setup &gt; Options &gt; Optional Items on Return</b> tab.

For more on the setting up the global option in Setup Options and on using the **LATE** screen, see [“Features for Late-Filed Returns” on page 209](#).

## Different Firm, Preparer, or ERO

By default, the program prints the information shown in [Table PER-21](#) on the return.

Table PER-21: Firm, Preparer, and ERO Data that can be Changed on the Fly

Information	Description
Firm	Firm associated with Preparer #1 in <b>Setup &gt; Preparer(s)</b>
Preparer	Preparer #1 in <b>Setup &gt; Preparer(s)</b>
ERO	ERO selected in <b>Setup &gt; Options, EF</b> tab (default is “Paid Preparer”)

To override any of these defaults for a return, go to screen **1** of the return and select a firm, preparer number or name, or ERO under **Return Options** (figure right).

Be aware of the following information when determining what information is to appear on the return:

The image shows a screenshot of a software interface for 'Return Options'. It features four dropdown menus. The first dropdown, 'Firm #', has a red box around it and contains the value '1'. The second dropdown, 'Preparer #', also has a red box around it and contains the value '6'. The third dropdown, 'Data entry #', has a red box around it and contains the value '='. The fourth dropdown, 'ERO #', has a red box around it and contains the value '='. The dropdowns are arranged vertically.

- Because both the firm and ERO information is determined by the return's preparer, a selection in the **Preparer #** drop list causes both the firm and ERO information to be overridden with the corresponding information associated with the selected preparer.
- If you do not make an entry for the **Preparer #** or **Firm #**, or if you select **NONE/Self-Prepared Return (No Paid Preparer)**, nothing is printed on the applicable line of the return. For the ERO, the program uses the information entered on the **EF** tab in **Setup > Options**.
- Data entered on the **PREP** screen overrides the default data and the corresponding **Return Options** selections on screen **1**. ERO information is *not* affected by **PREP** screen entries but *is* affected by a selection from the **ERO #** drop list on screen **1**. For more on the **PREP** screen, see "Overriding Other Preparer Information," following.
- The **Data Entry #** field is for tracking purposes only.
- A firm or preparer must be entered in **Setup > Firm(s)** or **Setup > Preparer(s)** in order to show up as an option in the override drop lists on screen **1**.

## Overriding Other Preparer Information

The **PREP** screen in data entry allows you to override the following data for a return:

- Third-party designee (see ["Third-Party Designee" on page 157](#))
- Federal preparer information (if the preparer is not set up at **Setup > Preparer(s)**)
- State preparer information (if the preparer is not set up at **Setup > Preparer(s)**)

If you make an entry in the **Federal Preparers** section of the **PREP** screen, the program requires that full override information for both the preparer and the firm also be entered in this section.

The **PREP** screen also includes an option to not print the preparer's information on the letter, bill, or summary.

At the bottom of the **PREP** screen is a check box declaring that you are either filing your own return or that you are not charging a fee for preparing the return and do not need to file Form 8867, Paid Preparer's Earned Income Credit Checklist.



- Enter **State Preparer Registration** information for **California, Maryland, New York, Oregon, and Virginia** on the **PREP** screen. Enter data for a firm's foreign address in either the federal or state preparer information sections.
- The drop list at bottom of the **PREP** screen—**If Preparer is set up in Setup > Preparer(s)**—is available if you want to use the alternative e-signature on the state forms. Select the **Preparer #** from the drop list at the left and enter that preparer's **PIN** in the field to the right.

## Overriding the Bill Amount

Standard rates must be established in Pricing Setup. (See “Pricing Setup” in the [2023 Drake Tax Manual](#).) Change the billing amount for a return either by overriding the total or by adjusting individual amounts.

### Overriding the Total

To override the *total amount* on a client’s bill, go to screen **1** and enter the desired amount in the **Fee override** field (located in the **Return Options** section).

### Adjusting Individual Amounts

**Screen:** Use the **BILL** screen to adjust *individual amounts* on a client’s bill. The following items are added to or subtracted from the bill using the **BILL** screen:

- **Adjustments** (enter an amount or select from user-defined drop lists) such as for coupons and other discounts and amounts charged for these adjustments
- Balance due from prior years
- Percentage increases and discounts
- State and local sales tax percentages
- **After-the-Fact Adjustments** (applied after all other adjustments have been applied and sales tax (if any) has been calculated)
- **Payments** (see “Importing Payments” in the [2023 Drake Tax Manual](#) for details on how to import payment information to the **BILL** screen)



To create user-defined drop lists for the write-in **Adjustments**, **Percentage discount**, **Percentage increase**, and **Payments** lines of the **BILL** screen, see “Customized Drop Lists” in the [2023 Drake Tax Manual](#).

Indicate the following adjustments from the **BILL** screen:

- Exclude a charge for the Filing Status Optimization Report (See [“About the MFJ/MFS Report” on page 39](#).)
- Include the amount charged for a self-preparer EF return (item 0386 in **Setup > Pricing**)

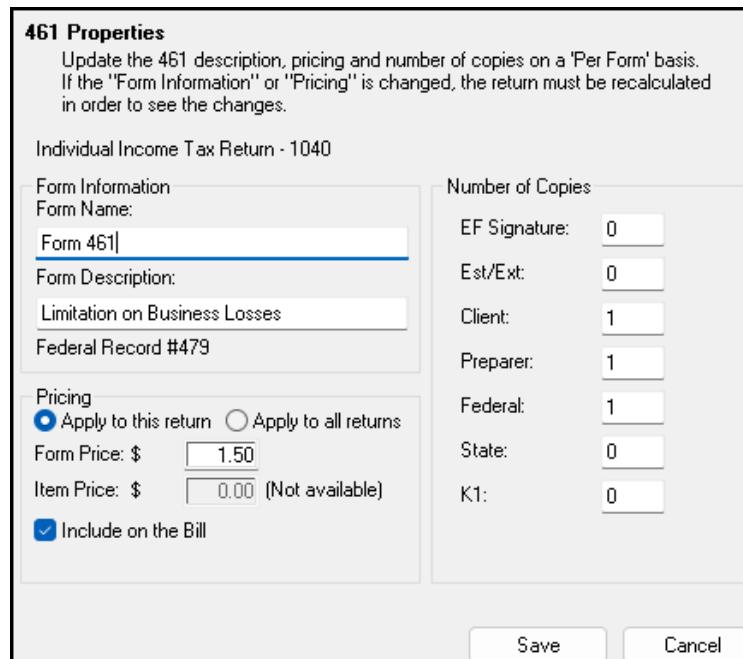
The **BILL** screen also allows you to override the date printed on the bill, to add a short note (separate from the custom paragraph) to the bottom of the bill, and to add an audit protection service for your customers.

## Pricing for a Single Return

To override Pricing Setup and establish prices for a single return:

1. Click **View/Print** from the toolbar to access View/Print mode for the return.
2. Select a form from the left column, then, from the toolbar, go to **Setup > Form Properties**. The **Properties** dialog box is displayed ([Figure PER-71](#)).

Figure PER-71: Pricing “On the Fly” for a Form



Change the price of a form from the viewing pane by right-clicking the form and selecting **Setup > Form Properties**.

3. In the **Form Information** section, edit the description of the form, and in the **Pricing** section, edit the price per form or per item.
4. Choose to **Apply to this return** or **Apply to all returns**. Applying to all returns changes the pricing file globally (in other words, for *all* returns).
5. Change **Number of Copies** to be printed in the sets (if desired) and then click **Save**.

You must recalculate the return to view your changes on the bill.

## Overriding Letters Setup

**Screen:** Set letters options and defaults from **Setup > Options, Optional Documents** tab, the **Setup > Options > Client communications** tab, and at **Setup > Communications Editor**. Use the **COMM** screen, accessible from the **Miscellaneous** tab, to override global options on a per-return basis.

The **COMM** screen allows you to make the following changes to the letters in a return:

- Have a Client Results letter other than the default letter printed with the return
- Enter a personalized letter greeting
- Add a custom paragraph

In addition, the **COMM** screen allows you to force-print (or suppress, if applicable) the following options, regardless of your setup options:

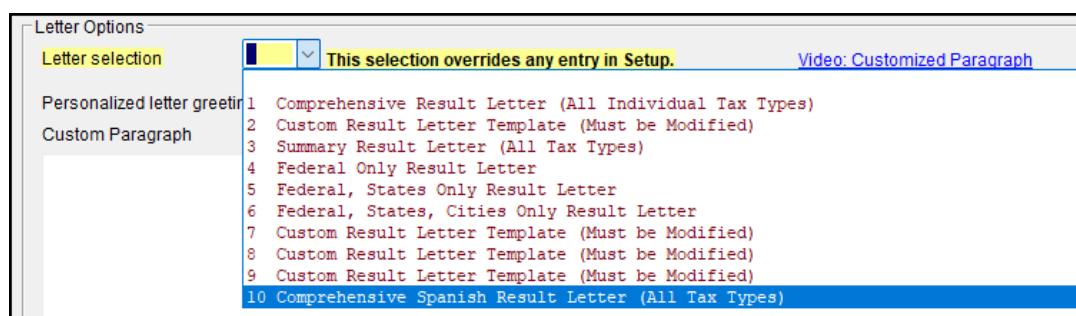
- Privacy Policy letters, Engagement letters, and Customized Supplemental letters
- Federal and state filing instructions
- Several types of envelope coversheets
- Federal or state Client Results letters for a *paper-filed* return or extension application, even if the return or application is *eligible* for e-file
- Federal or state Client Results letters for an *e-filed* return or extension application, even if the return or application is *not eligible* for e-file

## Default Results Letter

The Client Results letter is the standard letter printed with a return. It tells the client that the return has been prepared from the information provided, states the amount of the refund or balance due, and provides instructions for mailing the return (if paper-filing). The program uses letter #3, the "Summary Results Letter," as the default.

To change the default letter for a single return, from the **COMM** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**) select a new letter from the **Letter Selection** drop list ([Figure PER-72](#)).

Figure PER-72: Changing the Default Letter for a Return





To change the default letter for all returns, go to the **Client Communications** tab in **Setup > Options** and select a template from the applicable package in the **Letter Selection** section of the dialog box.

## Customized Greeting

The default greeting for all letters is set in Letters Setup. To override the greeting for a return, go to the **COMM** screen and enter a new greeting in the **Personalized letter greeting** text box.



To begin the letter for one return with a greeting of your choice (such as "Dear"), enter the greeting, along with the name, in the **Personalized letter greeting** field. To have all letters for a package type begin with the chosen greeting, open the actual template from **Setup > Communications Editor** and change the **Opening and Salutation Section**. See "[Adding a Custom Paragraph](#)," following.

## Adding a Custom Paragraph

To add a custom paragraph to a letter, write the paragraph in the **Custom paragraph** text box of the **COMM** screen. By default, the paragraph is printed at the bottom of the letter.

To have a custom paragraph appear elsewhere within the letter:

1. From the menu bar of the Drake Tax **Home** window, select **Setup > Communications Editor**.
2. Click **Open** from the toolbar and select the package and letter to be generated for the client.
3. If in Full Edit mode:
  - a. Place the cursor on the line of the letter where you want the custom paragraph to appear.
  - b. At the top-left corner, click to open the **Letter Contents** tab.
  - c. From the **Return Data Keyword** tree in the lower half of the column, click the PLUS SIGN [+] sign next to **Miscellaneous**.
4. If in Outline mode:
  - a. Click a Section tag and choose (double-click) the paragraph where you want the custom paragraph to appear.
  - b. Click to place the cursor on the line of the paragraph where you want the custom paragraph to appear.
  - c. From the keyword tree in the **Edit... Paragraph** dialog box, click the PLUS SIGN [+] next to **Miscellaneous**.

5. Double-click the **Paragraph from LTR screen** keyword. The keyword appears in the letter template.
6. Click **OK** (in Outline mode) or **Save** (in Full Edit mode).

When the return is generated, the letter displays the custom paragraph as directed.

## Engagement Letter

Tax return firms use Engagement letters to contract with clients to prepare their tax returns. At the end of the Engagement letter are lines for the taxpayer and spouse to sign and a “Date” line.

An Engagement letter is generated when a return is calculated if the **Include engagement letter...** check box is selected from the **Additional Letter Options** section of **Setup > Options > Client Communications** tab. Make a per-return change from the **COMM** screen. Engagement letters can also be produced prior to completion of the return by going to the **Home** window menu bar and selecting **Tools > Letters > Letters**.

## Privacy Letter

The Privacy Policy letter gives your clients information about the gathering and use of personal information relating to completing their tax returns. The Privacy Policy letter is generated when the **Include privacy letter...** check box is selected from the **Additional Letter Options** section of the **Setup > Options > Client Communications** tab. Make a per-return change from the **COMM** screen of a return.

## Custom Supplemental Letter

Use a customized, supplemental letter to suit your office’s needs. From the **Home** window, go to **Setup > Communications Editor**, select a package from the **Open** button on the toolbar, and scroll down to “(package type) **Customized Supplemental Letter**.” (See “Client Communications Editor” in the [2023 Drake Tax Manual](#) for more information.) The letter is not generated by default; change the default settings for all returns from **Setup > Options > Client Communications** tab, the **Additional Letter Options** section. Make a per-return change from the **COMM** screen of a return, available from the **Miscellaneous** tab of the **Data Entry Menu**.



In the 1120-S, 1065, and 1041 packages, print K-1 letters for a return with the name of an officer, partner, or fiduciary, the person’s title, and either the name of the filing entity or the name of your firm by entering the signing information in the **K-1 Cover Letter** section of the **COMM** screen. This is necessary only if the global option to print K-1 letters is not selected at **Setup > Options > Client Communications** tab.

## Filing Instructions

When a return is generated in Drake Tax, federal and state filing instructions are also generated if that option is selected globally from the **Filing Instructions** section of the **Setup > Options > Client Communications** tab. To override the global setting and force or suppress federal or state filing instructions for individual returns, make a selection from **Filing Instructions Options** section of the **COMM** screen.



Print the filing instructions for Form 8879 and 8878 e-file signature authorization forms by selecting that option at **Setup > Options > Client Communications** tab.

## Envelope Coversheets

When a return is generated in Drake Tax, envelope coversheets are also generated, if selected, for mailing copies of the return to the taxpayer and tax authorities. Default settings for envelope coversheets are set in **Setup > Options > Optional Documents** tab. Use the **Envelope Coversheet Options** section of the **COMM** screen to override coversheet options for a single return.

## e-File or Paper-File?

Drake Tax automatically generates a client return letter and filing instructions for an *e-filed* return unless the return being filed is ineligible for e-file or e-file has been suppressed.

Override this default setting (or the global selections made to suppress federal or state e-file at **Setup > Options > EF** tab) on the **COMM** screen, allowing you to produce EF results in the client letter and the filing instructions with a paper-filed return, or paper-filed results with an e-filed return, without changing the method of filing.

From the **Filing Method Override for Letters and Filing Instructions** section near the bottom of the **COMM** screen, select **EF** or **Paper** for the selected return. To indicate one or more state returns, select state abbreviations from the drop lists provided.

Figure PER-73: Selecting Federal and State e-File Letters/Filing Instructions on the **COMM** Screen

Filing Method Override for Letters and Filing Instructions					
<b>NOTE: Selecting EF or Paper does not force or suppress e-file</b>					
1040	<input checked="" type="checkbox"/> EF	<input type="checkbox"/> Paper	<input type="checkbox"/> EF	<input type="checkbox"/> EF	<input type="checkbox"/> EF
Federal Extension	<input type="checkbox"/> EF	<input type="checkbox"/> Paper	<input type="checkbox"/> EF	<input type="checkbox"/> EF	<input type="checkbox"/> EF
Federal Amended	<input type="checkbox"/> EF	<input type="checkbox"/> Paper	<input type="checkbox"/> EF	<input type="checkbox"/> EF	<input type="checkbox"/> EF
AR	<input checked="" type="checkbox"/> EF	<input type="checkbox"/> Paper	<input type="checkbox"/> EF	<input type="checkbox"/> EF	<input type="checkbox"/> EF
	<input type="checkbox"/> EF	<input type="checkbox"/> Paper	<input type="checkbox"/> EF	<input type="checkbox"/> EF	<input type="checkbox"/> EF
	<input type="checkbox"/> EF	<input type="checkbox"/> Paper	<input type="checkbox"/> EF	<input type="checkbox"/> EF	<input type="checkbox"/> EF

In the example in [Figure PER-73 on page 208](#), the letter will be worded as if both the federal 1040 and Arkansas returns are going to be e-filed—even if the return is not eligible for e-file or the taxpayer chooses to paper-file the return.



Making a selection from the **Filing Method Override for Letters and Filing Instructions** section of the **COMM** screen does not change the filing method itself; it changes only the information appearing in the filing instructions and Client Results letter.

## Features for Late-Filed Returns

Drake Tax calculates the late-filing penalty, late payment of tax penalty, and interest on late-filed 1040 returns. You can manually enter interest rates as needed and override certain components (such as interest owed) that affect system calculations of penalty and interest.

### Penalty and Interest Calculation

You can set up the program to calculate penalties and interest for all late-filed returns, or you can have penalties and interest calculated on a per-return (“on-the-fly”) basis.

#### Global Option

To have the program calculate penalties and interest for all late-filing clients based on the filing dates:

1. From the **Home** window menu bar, go to **Setup > Options**, and click the **Optional Items on Return** tab.
2. Ensure that the **Automatically calculate...** box is marked under the **Interest and Penalty Calculation** section ([Figure PER-74](#)).

Figure PER-74: Automatically Calculating Penalties and Interest

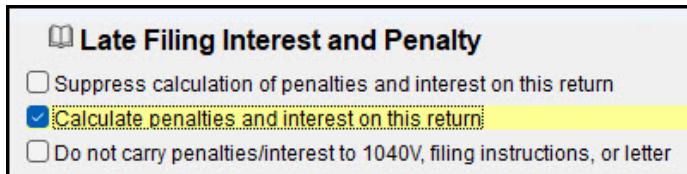
<b>Interest and Penalty Calculation</b>	
<input checked="" type="checkbox"/>	Automatically calculate penalties and interest on returns filed after the due date. Drake Software automatically updates quarterly interest rates when needed.

## “On the Fly” Option

**Screen:** The per-return option can be used if the global option (shown in [Figure PER-74](#)) is not selected. To have the program calculate penalties and interest for a single return:

1. Open the **LATE** screen (accessible from the **Taxes** tab) in Drake Tax.
2. Mark the **Calculate penalties and interest on this return** box ([Figure PER-75](#)).

Figure PER-75: Calculating Penalties and Interest Using the **LATE** Screen



3. (*optional*) Override the **Failure to file penalty**, **Failure to pay penalty**, and **Interest** amounts if you do not wish to use the default quarterly rates.
4. Complete the **Date return was filed** text box. If this field is blank, the program uses the **Date balance paid** entry from the **2210** screen by default.

### — Other LATE Screen Features —

You can also use the **LATE** screen to override these additional default settings:

- **Including calculated amounts elsewhere** — By default, the calculated amounts are incorporated into the payment voucher, filing instructions, and Client Results letter for the return. To override this default, go to the **LATE** screen and mark the **Do not carry penalties/interest to 1040V...** box.
- **Suppressing calculation “on the fly”** — If the option to calculate penalties and interest for all late returns is selected in **Setup > Options > Optional Items on Return tab**, and you want to suppress the calculation for a single return, mark the **Suppress calculation of penalties...** box at the top of the **LATE** screen for that return.
- **Due date of return** — An entry here overrides the default of April 18 of the year the return is due (April 15, 2024 for 2023 returns). (An override would be necessary for a special circumstance, such as for returns affected by disasters or other IRS-extended due date occurrences.)
- **Date balance paid if different** — An entry overrides the calculated balance due.

## Other Special Features in Data Entry

Special features are available to help tax return preparers transmit certain documents with returns, and compare and review information more effectively, include all required details on a return, and track a return’s progress.

## 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 —

If the document that needs to be attached is already a PDF, skip to [“Adding PDF Documents to Drake Tax” on page 212](#); otherwise, proceed to the proper section (either [“Paper Document to PDF”](#), following, or [“Electronic Document to PDF” on page 212](#)), and follow the indicated steps.

### Paper Document to PDF

To convert a third-party document (such as signature forms, appraisals, or articles of incorporations) 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 Drake Documents folder.

From here, proceed to [“Adding PDF Documents to Drake Tax” on page 212](#).

## 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 by adding **.PDF** to the end of the file name or by selecting **PDF** from the **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 —

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 PER-22](#)).

Table PER-22: **PDF Attachment** Window Columns

Column	Description	Examples
<b>Reference Source</b> (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	<ul style="list-style-type: none"> <li>• IRS Pub 4163</li> <li>• Form Instructions for 4466</li> </ul>
<b>Description</b>	Description of form or document to be attached	<ul style="list-style-type: none"> <li>• Divorce decree</li> <li>• Bonus depreciation worksheet</li> </ul>
<b>File name</b>	Distinctive, easily recognizable file name, followed by ".pdf"	<ul style="list-style-type: none"> <li>• JohnsonDivorce.pdf</li> <li>• SmithInsolvency.pdf</li> </ul>

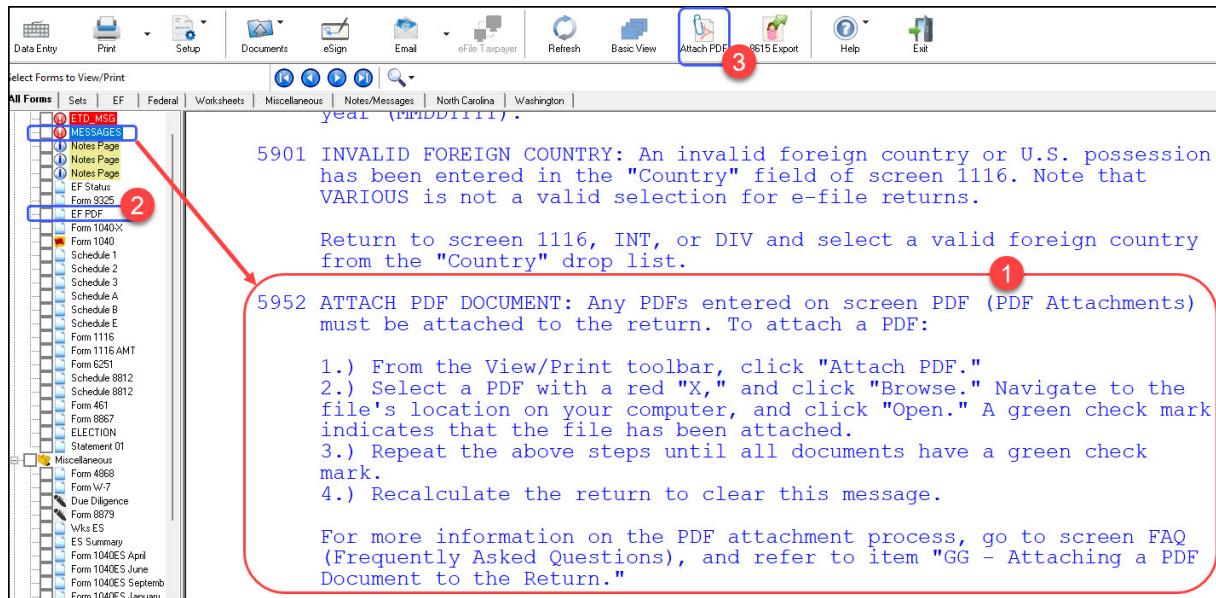
## — Attaching Documents to the Return —

To attach a PDF document 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 PER-76 on page 213](#))
  - 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 PER-76: 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. 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 PER-77).

Figure PER-77: **EF PDF Attachments** Window

Required PDF Attachments		
The list below contains PDF Attachments that are required for electronic filing. Select an item from the list and click 'Browse' to locate the associated PDF file. Items with a green check mark already have the PDF file. Items with a red 'X' are missing the required PDF File.		
Reference	Description	Required PDF FileName
<input checked="" type="checkbox"/> Safe Harbor Election	Safe Harbor Election	QBI_SAFE.PDF
<input checked="" type="checkbox"/> Form 7203	Shareholder's Stock and Debt	FORM7203.PDF
<input checked="" type="checkbox"/> Pub. 713	Medical Exemption	REESEBILLS.PDF
<input checked="" type="checkbox"/> Alabama Return	Credit for Taxes Paid	AL2022.PDF

View      Delete      Browse      Exit

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 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.



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. These attachments still must be “attached,” using the steps provided in [“Attaching Documents to the Return” on page 212](#).

## Comparing Data

**Screen:** **COMP** In Drake Tax, you can compare data from two versions of the same tax return. You can also produce a tax return comparison worksheet that shows data for a client’s returns for the current year and the two prior years.

The **COMP** (Tax Return Comparison) screen is used for comparing a current-year tax return with data from the two prior tax years. The screen itself has parallel columns of data entry fields—one column for the prior year, and one for the year before that.

If a return was updated from the prior year, the **COMP** screen already contains data. If not, the screen must be completed manually for an accurate comparison. When a return is generated, the “Comparison” worksheet displays the data comparisons.

Detailed comparisons are also available for Schedules C and E. Turn to [“Prior-Year Comparisons” on page 58](#) for more information.

## Tax Computation Worksheet

The Tax Computation Worksheet (“Tax Computation”), generated in View/Print mode, shows how the program calculates the tax on line 16, “Tax,” of the 1040 return. When more than one method is available for calculating tax, the program uses the most advantageous method.

This worksheet can be generated or suppressed globally (for all returns) from Setup Options. From the **Home** window menu bar of Drake Tax, select **Setup > Options > Forms & Schedule Options** tab, and mark **Always show tax computation worksheet**. If you choose not to set this option globally, you can print the worksheet on an individual basis from the **Produce Tax Computation Worksheet** option on the **PRNT** screen.

## Preparer Notes

**Screen:**

**NOTE**

Use the **NOTE** screen to ensure that specific reminders (in the forms of Return Notes and EF Messages) appear for specific returns. By default, all notes from the **NOTE** screen are printed on the last “Notes Page” generated with the return. These Return Notes can also be made to appear every time you open the return in Drake Tax.

## Entering a Note

**Shortcut:**

**CTRL+R**

To include a Return Note with a return, click **NOTE** from the **General** tab of the **Data Entry Menu**, press **CTRL+R**, or right-click any open screen and select **Add Reminder**. Enter all relevant information in the fields provided at the top of the **Notes** window (item #1 in [Figure PER-78](#)). The window includes fields for names, dates, and any screen or form to which the note refers.

Figure PER-78: Using the **NOTE** Screen

Any notes you enter at the top of the window (item #1 in [Figure PER-78](#)) and any you enter in the **Miscellaneous Notes** pane at the bottom of the **Notes** window (#2) appear every time you open the return as long as you have the **Show notes/reminders to preparer when opening a return** option marked at **Setup > Options > Data Entry** tab. Notes with a **Date completed** are considered finished and do not appear when the return is opened but are still produced on the “Notes Page” in View/Print mode.

The maximum number of characters allowed in one of the **Notes** fields is 120. The **Miscellaneous Notes** pane allows 240 characters. Up to four notes can be entered on a single **Notes** window. For additional windows, press PAGE DOWN.



Mark the **Print on NOTES** check box to make the **Miscellaneous Notes** appear with the other entered notes on a "Notes Page" in View/Print mode.

## Delaying e-File

In Drake Tax, a return cannot be e-filed until all EF Messages are eliminated.

The **NOTE** screen can be used to delay e-file of a prepared return, even if the return is eligible for e-file. To have a Return Note delay e-file, select **Hold EF** (blue circle in [Figure PER-78 on page 215](#)) for the note, and the note shows up as an EF Message (5421). When you are ready to e-file the return, return to the **NOTE** screen and clear the **Hold EF** box.

## Other Options

If you selected the global option of showing notes whenever you open a return, you can override that setup option on the **NOTE** screen by selecting the **Don't show** check box. The **Miscellaneous Note** (item #2 in [Figure PER-78 on page 215](#)) will not appear when you open that return.

## Notes to Organizer

Mark the **Print to Organizer** check box and the **Miscellaneous Notes** will be included when you print an organizer for that client for next year.

## Notes to be Updated

Notes in the top section of the **NOTE** screen (item #1 in [Figure PER-78 on page 215](#)) apply for the current year only. The **Miscellaneous Notes** (item #2) at the bottom of the **NOTE** screen are updated each year when the return is updated.

## Preparer Notepad

Screen:  
**PAD**

The Preparer Notepad screen (**PAD**) offers an area for keeping more extensive notes and other pertinent return information. The contents of this screen are brought forward each year when the

return is updated and appear when the return is opened, provided **Show notes/reminders to preparer when opening a return** is selected at **Setup > Options > Data Entry** tab.

Access the **PAD** screen using any of these methods:

**Shortcut:**  
**CTRL+  
SHIFT+N**

- Select it from the **General** tab of the **Data Entry Menu**
- Press **CTRL+SHIFT+N**
- Right-click any open screen and select **Preparer Notepad** from the right-click menu

Press **PAGE DOWN** for additional **PAD** screens.

## Unformatted Schedules

**Screen:** **SCH** The **SCH** screen, accessible from the **Miscellaneous** tab and via links from certain screens, is available for adding statements and explanations not supported elsewhere in the return. Not all unformatted schedules can be e-filed. Amounts entered on **SCH** screens do not flow to any other form or schedule.

For *required* attachments, select the attachment information (title and statement number) from the **Type of attachment/statement number and title** drop list on the **SCH** screen. For *optional* attachments, use the **Title** field below the explanation pane and make a selection from the **Type of attachment/statement number and title** drop list based on the information in [Table PER-23](#) (following [“Optional Attachments,”](#) below).

## Optional Attachments

If an attachment is optional, select the applicable category from the **Type of attachment/statement number and title** drop list. Categories are described in [Table PER-23](#).

Table PER-23: Attachment Types and How They Appear in View/Print Mode

Type	Description	View/Print
X	Preparer's EFT note; use for including voluntary information that is related to the tax return but (unlike a statement) is not required	EF_NOTE
E	Explanation for certain IRS code elections where no official IRS form is designed for that purpose	ELECTION

## Return Tracking

**Screens:** **ADMN, ESUM** Use the Administrative Tracking (**ADMN**) and EF Summary (**ESUM**) screens to track the progress of each return. The **ADMN** screen shows, at a glance, who did the work, who reviewed it, and how much

time was spent on the return. It also shows bank product information. The **ESUM** screen provides an e-file summary of the return. You can also review e-file and bank product information.

Use the **ADMN** screen to track the data shown in [Table PER-24](#).

Table PER-24: **ADMN** and **ESUM** Screen Information

Type of Information	Description
Fee and Payments ( <b>ADMN</b> )	Updated from prior year
First came in, interview ( <b>ADMN</b> )	Used in timed billing (optional feature)
Preparer Contribution ( <b>ADMN</b> )	Used to track which preparers made contributions to the return (preparer entry)
Reviewer Contribution ( <b>ADMN</b> )	Used to track which preparers reviewed the return (preparer entry)
Approved, Copy/assemble, Client contact, Client pickup, Date promised, Date completed ( <b>ADMN</b> )	Used to track the various stages of return completion (preparer entry)
Data entry history for the return (ADMIN users only) ( <b>ADMN</b> )	Completed automatically
EF transmission data (ADMIN users only) ( <b>ESUM</b> )	Completed automatically
Non-traditional return types (ADMIN users only) ( <b>ESUM</b> )	Completed automatically (PA and NY only)
Bank product data ( <b>ADMN</b> )	Check number and amount completed automatically; preparer must enter the date the check is picked up.
Bank code (ADMIN users only) ( <b>ADMN</b> )	Completed automatically

Note that some **ADMN** screen fields are automatically filled with data from elsewhere, while other fields require direct entries. Note also that some fields are “ADMIN only” and are not visible to users who do not have administrative rights.



Some data from these screens can be incorporated into Report Manager and Client Status Manager (CSM) reports.

## ADMN Screen Reports

Two reports can be generated directly from the **ADMN** screen:

- **Return Preparation Data** — Consists of data entered by preparers in the **Return Preparation Data** section of the **ADMN** screen
- **ADMIN ONLY Return Data** — Consists of information generated by the program and displayed in the **ADMIN ONLY** side of the **ADMN** screen. (The **ADMIN ONLY** fields can be

viewed only by users with administrative rights.)

To generate a report, go to the **ADMN** screen and mark the applicable check box:

- The **Generate Return Preparation Data Report** — Located in the **Return Preparation Data** section of the **ADMN** screen. Appears as “TRAC” in View/Print mode.
- The **Generate ADMIN ONLY Return Data Report** — Located in the **ADMIN ONLY** section of the **ADMN** screen. Appears as “TRAC Admin” in View/Print mode.

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# Gift Tax (709)

The basics of data entry for a gift tax 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 [2023 Drake Tax 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](http://Support.DrakeSoftware.com) > **Support** > **Documents** > **Manuals**.)

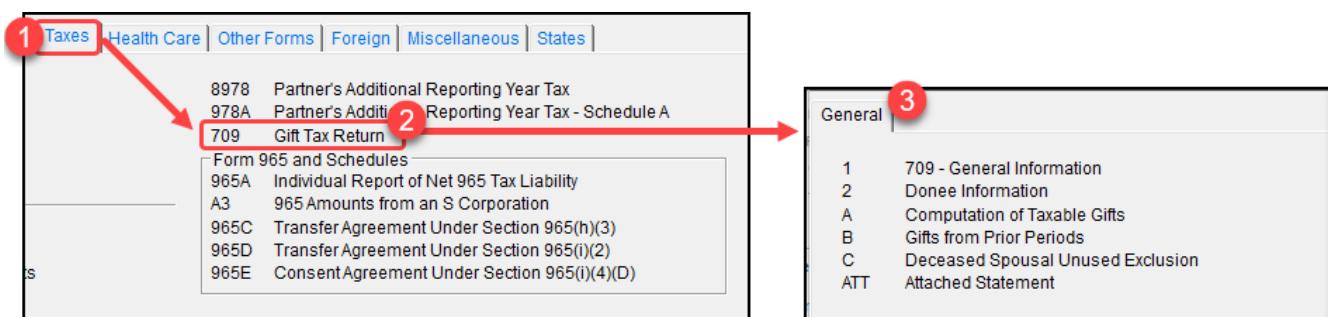
## Gift Tax Returns

**Screen:** Form 709, U.S. Gift (and Generation-Skipping Transfer) Tax Return, consists of several parts and schedules, all located on the **709** menu, accessible from the **Taxes** tab of the **Data Entry Menu** ([Figure GFT-1](#)).



Form 709 cannot be e-filed. An electronic signature is required for all other returns and applications for extensions. See ["Signing the Return" on page 159](#) for more on electronic signatures.

Figure GFT-1: Navigating to the Gift Tax Return Screens



Click an item to open it, or type its code into the selector field and press ENTER.



Neither Form 709 returns nor Form 8892, Application for Automatic Extension of Time to File Form 709 and/or Payment of Gift/Generation-Skipping Transfer Tax, can be e-filed. They must be paper filed.

## Pricing for Form 709

To set up pricing for Form 709, from the **Home** window menu bar, go to **Setup > Pricing**. By default, the pricing list is for individual (1040 package) forms. From the **Fed/State** drop list, select **Gift Tax (709)** to display a list of gift tax forms. Double-click a form name to adjust the pricing. (For details on setting up pricing, see the [2023 Drake Tax Manual](#).)

## Attached Statements

If Form 709 requires an attachment (for example, if an election option requires the amounts in question to be identified), click the **ATT** screen on the 709 **Data Entry Menu**.

## Extension Request for Form 709

Form 4868 covers extension requests for both a 1040 and a 709 return. No separate extension request is required. For more information, see ["Extensions" on page 182](#).

To request an extension for Form 709 *only*, complete Form 8892. This form is not available in Drake Tax but can be accessed from the IRS website. See IRS instructions for more on submitting a 709 extension request to the IRS.

## Donee Screen

Use the **Gifts (709 A)** screen and **Donee (709 2)** screen to link a gift with a donee. This saves you data-entry time when donees receive multiple gifts and allows Drake Tax to limit the maximum gifts to \$14,000 per year for each specific donee.

To use this feature:

1. Open the **Donee Information** screen (709 screen **2**).
2. Enter a unique **Donee number** for each donee.
3. Complete the rest of the fields.

4. For more donees, press PAGE DOWN.
5. When finished entering donees, close the **Donee** screen.
6. Open the **Gifts** screen (709 screen **A**).
7. Select a donee from the **Donee** drop list. (All donees entered on the **Donee Information** screen will be available from the **Donee** drop list on the **Gifts** screen.)
8. Complete the rest of the applicable fields.



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Form 843, Claim for a Refund and Request for Abatement, can be used in the 709 package to claim a refund or request an abatement of certain taxes, interest, penalties, fees, and additions to tax. Complete the form in Drake Tax (using screen **843**), then print and mail the form to the service center where you would be required to file a current-year 709 return (unless responding to IRS letter or notice). See the 709 instructions for more information.

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# Estates (706)

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The basics of data entry for an estate (706) 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 [2023 Drake Tax 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](http://Support.DrakeSoftware.com) > **Support** > **Documents** > **Manuals**.)

## Use the Latest Version of Form 706

For decedents dying after December 31, 2022, you must use Drake Tax 2023. For decedents dying in 2022, use the 2022 version of Drake Tax.

## Estate Returns for Individuals

The [2023 Drake Tax Manual](#) provides details on how to create and open new returns for any package, including the 706 package. In some cases, however, you have to create an estate return (706 or 706-A) for an individual who already has a 1040 return in the program. To assign a single SSN to multiple returns:

1. From the **Home** window of Drake Tax, select **Tools** > **File Maintenance** > **Change File Type**.
2. In the **Convert Client Data File Type** window ([Figure EST-1 on page 226](#)), begin typing the SSN of an individual (1040) return to be converted to 706. As you type, the search program narrows the list reflected in the **Client Name** pane. You can also select a return from the **Client Name** list. Once you have selected the return, click **Continue**.

Figure EST-1: Converting a 1040 Return to a 706

**This will allow you to convert a client data file from one type of return to another.**  
 The following data converts: name, address, fiscal year, all depreciation, screens 6, 7, 8, 9, and 10.  
 In addition, corporation and sub-s corporation conversions converts the balance sheet and Schedule A information.

**\*\* Warning: Back up all data before proceeding \*\***

**Client Selection**

5  <Search Results: >

Client Name	Type	ID Number
FILANOWSKI, EEVIE & UNO	1040	5

Help Continue Exit



An SSN must already be associated with a return in the program before it can be assigned to a second return type.

- The available return types are displayed. In [Figure EST-2](#), the selected return is a 1040, so that option is disabled. Note that the 706 and 706-A options are in the right-hand column.

Figure EST-2: Available Return Types

**This will allow you to convert a client data file from one type of return to another.**  
 The following data converts: name, address, fiscal year, all depreciation, screens 6, 7, 8, 9, and 10.  
 In addition, corporation and sub-s corporation conversions converts the balance sheet and Schedule A information.

5. **File Type is Individual (1040)**

Convert this file to:

<input type="radio"/> Individual (1040)	<input type="radio"/> Fiduciary (1041)
<input type="radio"/> Corporate (1120)	<input type="radio"/> Partnership (1065)
<input type="radio"/> Sub-S Corp (1120S)	<input checked="" type="radio"/> Estate (706)
	<input type="radio"/> Heir (706A)

Help Continue Exit

- Click an option to select it, and then click **Continue**.
- When asked if you want to keep the original return in addition to the new return, click **Yes**.
- Click **OK**.

The SSN is now applied to both the original return and the new 706 return. In the future, when you enter the SSN to open a return, you will be asked which return you wish to open: the individual return or the estate return. When you use other features of the program where SSNs are entered (such as in the **Client Selection** search box in **Tools > Letters > Letters**), you will be prompted to indicate which return the program should use.

# Form 706

Form 706 is used to figure a decedent's estate tax or to compute generation-skipping transfer (GST) tax on direct skips. Form 706 is not e-fileable, but the 706 package in Drake Tax can be used for completing Form 706 and related forms.



A death certificate must be attached to a 706 return before submission.

## Part 1: Decedent and Executor Information

**Screens:** Screen **DEMO** and screen **1** both contain fields for entering the general information that is printed in the top section of page 1 of Forms 706 and 706-A. This information includes decedent data (**DEMO** screen) and decedent data, executor data, executor elections, and court and case information (screen **1**).

The **DEMO** screen also has fields for entering miscellaneous codes and a preparer's alternative e-signature PIN, a drop list for selecting appropriate state returns, and fields for overriding preparation fees, firm, preparer, and data-entry operator information. (For more on using these fields, see the [2023 Drake Tax Manual](#).)

There is also a check box on the **DEMO** screen for indicating an amended return.

# Form 8971

**Screens:** If filing Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent, and the executor made an election on the estate tax return to use alternate valuation under section 2032, provide that date in the **Form 8971** section of the **DEMO** screen.

Enter the date the executor supplied the beneficiaries with Schedule A of Form 8971 on screen **BENE**, available from the **Supplemental Forms** tab of the **Data Entry Menu**.



- Part I is not necessary for Form 706-A or Form 706-QDT. To access screens for completing the identifying information for the 706-A or 706-QDT, select the links on the **DEMO** screen or click the applicable tab (**Form 706-A** or **Form 706-QDT**) from the **Data Entry Menu**.
- On screen **1**, item 7a, the **Court** field allows up to 57 characters to account for the amount of space provided on the form. Item 7b, "Case number," allows up to 16 characters (13 numbers + 3 dashes).

For more on Form 8971, see ["Form 8971, Info. re: Beneficiaries" on page 241](#).

## Part 2: Tax Computation

Most of the information printed in Part 2 of the return is calculated from entries made on other screens, as directed by Form 706. For example, the amount for line 13, "Credit for foreign death taxes," is calculated from the information you enter on screen **CE** (Form 706-CE), available from the **Form 706 Estate Forms** tab of the **Data Entry Menu**.

### Flow of Data

Table EST-1 displays the screens from which Part 2 amounts are calculated.

Table EST-1: Tax Computation Fields

Line & Label	Screen	Additional Information
Line 1, Total gross estate	<b>PROP, U</b> , various screens from the <b>Deductions</b> section	Amount includes stocks, bonds, annuities, insurance, & property in which the decedent had an interest. See " <a href="#">Gross Estate (Schedules A – I; Schedule U)</a> " on page 230 .
Line 2, Tentative total allowable deductions	<b>PROP</b> and various screens from the <b>Deductions</b> section	See " <a href="#">Gross Estate (Schedules A – I; Schedule U)</a> " on page 230 and " <a href="#">Deductions (Schedules J – M; Schedule O)</a> " on page 242.
Line 4, Adjusted taxable gifts	<b>709</b>	See " <a href="#">Generation-Skipping Transfer (GST) Tax</a> " on page 246.
Line 7, Total gift tax paid	<b>709</b>	See " <a href="#">Generation-Skipping Transfer (GST) Tax</a> " on page 246.
Line 10, adjustment to applicable credit amount	<b>709</b>	See " <a href="#">Foreign Death Tax (Sch. P; Form 706-CE)</a> " on page 247..
Line 13, Credit for foreign death taxes	<b>CE</b>	See " <a href="#">Foreign Death Tax (Sch. P; Form 706-CE)</a> " on page 247..
Line 14, Credit for tax on prior transfers	<b>Q</b>	Calculated from Schedule Q; see " <a href="#">Credit for Tax on Prior Transfers (Sch. Q)</a> " on page 247.
Line 17, GST taxes payable	<b>R, R2</b>	Calculated from Schedule R; see " <a href="#">Generation-Skipping Transfer (GST) Tax</a> " on page 246 for more information.

### Direct-Entry Amounts

Enter amounts for the following lines directly onto screen **2**:

- **Line 3b, State death tax deduction** — This is the amount of estate, inheritance, legacy, or succession taxes paid as a result of the decedent's death to any state (including the District of Columbia).
- **Line 9a, Basic exclusion amount** — This field overrides the amount calculated for line 9a, "Basic exclusion amount," for Form 706.
- **Line 9c, Restored exclusion amount** — For more on restoring the exclusion amount, see Note "a" on the following page.
- **Line 19, Prior payments** — Enter here any prior payments made of the estate taxes. (See Note "b" on the following page.)
- **Line 19, U.S. Treasury bonds** — Enter here any U.S. Treasury bonds redeemed in payment of estate tax. (The executor may not use the treasury bonds to pay generation-skipping transfer taxes.)



a. If a decedent made a taxable gift during the decedent's lifetime to decedent's same-sex spouse, and that transfer resulted in a reduction of the decedent's available applicable exclusion amount, the amount of the applicable exclusion that was reduced can be restored. See IRS instructions for Form 706 and Form 709, Schedule C, to determine the Restored Exclusion Amount.

b. The IRS requires that if the tax paid with the return is different from the balance due, you must explain the difference in an attached statement. If prior payments have been made to the IRS, and an amount is entered on either line 19 field on screen 2, you must explain in an attached statement. To include such statements, go to the **SCH** screen (accessible from the **Supplemental Forms** tab), enter a title (such as "Line 19 - Prior Payments") and then in the large text box, enter an explanation.

## Part 3: Elections by the Executor

**Screen: 1** Answer the **Part 3** questions on screen **1** ([Figure EST-3](#)) to complete Form 706, Part 3, "Elections by the Executor."

Figure EST-3: Use the **Part 3** Section of Screen **1** to complete "Part 3, Elections by Executor"

<b>Part 3 - Elections by the Executor</b>		
<b>1</b>	<input type="checkbox"/> Sect 2032 Alternate valuation	<input type="checkbox"/> Protective alternate valuation
<b>2</b>	<input type="checkbox"/> Sect 2032A Special-use valuation (complete Sch A-1)	<input type="checkbox"/> Sect 20.6166-1(d) Protection election
<b>3</b>	<input type="checkbox"/> Sect 6166 Pay Estate tax in installments	
<b>4</b>	<input type="checkbox"/> Sect 6163 Postpone tax on reversionary or remainder Interest	

Mark a box to indicate a "Yes" answer; leave the box blank to indicate a "No" answer. (The "No" boxes on Form 706, page 2, Part 3, are marked by default.)

## Part 4: General Information

Use screen **2** to complete Part 4, “General Information,” of Form 706.

## Part 5: Recapitulation

Form 706, Part 5, is used to calculate the gross value of the estate. Data for Part 5 flows from various estate and deduction schedules. The type of assets owned by the estate determines which of the schedules should be filed with the return. The fields on screen **5** are override fields; enter data here only to override a calculate amount.

## Gross Estate (Schedules A – I; Schedule U)

In Drake Tax, total gross estate information flows primarily from data entered on the **PROP** (Estate Property) screen, the **U** (Schedule U) screen, and the various screens and schedules listed in the **Deductions** box on the right column of the **Form 706 Estate Forms** tab of the **Data Entry Menu**.

In some cases, information must be entered on both the **PROP** screen and one of the schedule screens. For instance, most data for Schedule F (Other Miscellaneous Property Not Reportable Under Any Other Schedule) is entered on the **PROP** screen, but data on the decedent’s safety deposit boxes must be entered on screen **F** (Other Miscellaneous Property).

The following sections cover the primary screens used for entering gross estate data.

## Estate Property

**Screen:** **PROP** Use the **PROP** screen to enter estate property data. This data should be applied, as applicable, to one of the following Form 706 schedules:

- Schedule A — Real Estate
- Schedule B — Stocks & Bonds
- Schedule C — Mortgages, Notes, & Cash
- Schedule D — Insurance
- Schedule E — Jointly Owned Property
- Schedule F — Other Miscellaneous Property
- Schedule G — Transfers
- Schedule H — Powers of Appointment
- Schedule I — Annuities

Enter estate property information on the **PROP** screen, accessible from the **Property** section on the **Form 706 Estate Forms** tab of the **Data Entry Menu**. From the **For Schedule** drop list, select the schedule to which the estate property information should be applied. In the example in [Figure EST-4](#), the estate property information will be applied to Schedule A.

Figure EST-4: Selecting a Schedule from the **PROP** Screen

Estate Property		Beneficiary Information											
<b>Estate Property</b>													
<b>For Schedule</b>	<input type="button" value="ST"/>	<input type="button" value="City"/>	<input type="button" value=""/>										
<b>Description</b>	<table border="1"> <tr><td>A Schedule A - Real Estate</td></tr> <tr><td>B Schedule B - Stocks and Bonds</td></tr> <tr><td>C Schedule C - Mortgages, Notes, and Cash</td></tr> <tr><td>D Schedule D - Insurance on the Decedent's Life</td></tr> <tr><td>E Schedule E - Jointly Owned Property</td></tr> <tr><td>F Schedule F - Other Miscellaneous Property Not Reportable</td></tr> <tr><td>G Schedule G - Transfers During Decedent's Life</td></tr> <tr><td>H Schedule H - Powers of Appointment</td></tr> <tr><td>I Schedule I - Annuities</td></tr> </table>				A Schedule A - Real Estate	B Schedule B - Stocks and Bonds	C Schedule C - Mortgages, Notes, and Cash	D Schedule D - Insurance on the Decedent's Life	E Schedule E - Jointly Owned Property	F Schedule F - Other Miscellaneous Property Not Reportable	G Schedule G - Transfers During Decedent's Life	H Schedule H - Powers of Appointment	I Schedule I - Annuities
A Schedule A - Real Estate													
B Schedule B - Stocks and Bonds													
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F Schedule F - Other Miscellaneous Property Not Reportable													
G Schedule G - Transfers During Decedent's Life													
H Schedule H - Powers of Appointment													
I Schedule I - Annuities													
<b>CUSIP number for Schedules B, E, or F</b>													

7. *(as applicable)* Complete the required **Description** and **Value** fields. The **Description** should be detailed enough to allow the IRS to easily locate the property for inspection and valuation. The **Value** should be the value of the property on the date of the decedent's death.
8. *(as applicable)* If the alternate valuation is elected, complete the **Alternate Date** and **Alternate Value** fields.
9. *(as applicable)* Complete fields for Schedules B, E, F, or I, including the **CUSIP number for Schedules B, E, or F** field.

To enter a second property description, press PAGE DOWN. A blank **PROP** screen is opened.



To have all or part of the value flow to Schedule M (Bequests, etc., to Surviving Spouse), mark the **Send this information to Schedule M** check box on the **PROP** screen. By default, the program sends the total to Schedule M. To send a different value, complete the **Amount to be carried to Sch M** override field. A separate statement will be attached automatically. See ["Schedule M \(Bequests to Surviving Spouse\)" on page 244](#) for more information on completing Schedule M.

For more on Schedule B in Form 706, see ["Schedule B \(Stocks and Bonds\)" on page 234](#).

## Beneficiaries

**Screens:** **BENE, PROP** Record information about beneficiaries on screen **BENE**, available from the **Supplemental Forms** tab of the **Data Entry Menu** (for personal information), and the **Beneficiary Information** tab on the **PROP** screen (for entering percentages of property acquired from the decedent).

When the return is calculated, Form 8971 is produced, along with a Schedule A for each listed beneficiary. Supply each beneficiary with a copy of the Schedule A for filing with that person's or entity's tax return. On screen **BENE**, report the date the executor provided the beneficiary with Schedule A of Form 8971.

## — Beneficiary Information Tab —

When property is acquired by a beneficiary, enter information on the beneficiary on the **Beneficiary Information** tab of the **PROP** screen. For properties for which a beneficiary received a percentage, select the beneficiary from the **TIN** drop list, enter the percentage acquired, and, if there is more than one beneficiary, select a “rounding beneficiary.”



All beneficiaries entered on the **BENE** screen are listed in the **TIN** drop list of the **Beneficiary Information** tab. Make a selection from the **TIN** list and the **Name** field will be completed automatically. See [“BENE Screen.”](#) later on this page.

Enter the percentage as a whole number. If the beneficiary acquired (or is expected to acquire) 100% of the property, either enter 100 or leave the field blank and the program will use 100% by default. (If the beneficiary acquired (or is expected to acquire) 100% of the property, that beneficiary should be the only beneficiary entered.)

## — “Rounding” Beneficiary —

The “rounding” beneficiary will be the one who receives any balancing amount when the return is calculated. Each property for which there is more than one beneficiary should have a rounding beneficiary designated.

## — BENE Screen —

Enter each beneficiary on a separate **BENE** screen (available from the **Supplemental Forms** tab of the **Data Entry Menu**). Provide all contact information (name, address, TIN, etc.), for that beneficiary, and such information as the date the executor provided a copy of Schedule A to the beneficiary, the beneficiary's relationship to the decedent, the amount distributed (or to be distributed) to each beneficiary, and notification that the beneficiary is a charitable organization or other institution. (If so, the program can send the information to Schedule O.)

All beneficiaries entered on a **BENE** screen will be available from the **Beneficiary Information** tab of the **PROP** screen.

## Schedule A (Real Estate)

**Screen:** Use the **PROP** screen to enter information for Schedule A, Real Estate. Select **Schedule A** from the **For Schedule** drop list, as shown in [Figure EST-4 on page 231](#). See the IRS instructions and the field help resources for specific instructions for each field. If any property is subject to a mortgage for which the estate is liable, report the full value of the property in the **Value** field and enter the amount of mortgage in the **Description** field. The unpaid amount of the mortgage can be deducted on Schedule K.

For more **PROP** screens, press PAGE DOWN.

### — 2032A Valuation —

**Screens:** If electing section 2032A valuation, Schedules A (**PROP** screen) and A-1 (**A1** screen) are required.  
**PROP, A1**

To complete Schedule A-1:

1. Open screen **A1**, accessible from the **Property** section of the **Form 706 Estate Forms** tab.
2. Complete all applicable fields for Parts 1, 2, and 3.
3. Press PAGE DOWN to access fields for completing lines 2, 3, and 4 of Part 2, Notice of Election ([Figure EST-5](#)).

Figure EST-5: Fields for Completing Lines 2, 3, and 4 of Schedule A-1, Part 2 (Notice of Election)

<b>Schedule A-1 - Part 2 - Notice of Election (continued)</b>				
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
<b>Line</b>	<b>Schedule and Item Number</b>	<b>Full Value (w/o 2032A(b)(3)(B))</b>	<b>Adjusted Value (with 2032A(b)(3)(B))</b>	<b>Qualified Use Value (w/o 2032A(b)(3)(B))</b>
<input type="checkbox"/>				

Press PAGE DOWN for Schedule A-1, Part 2 - Notice of Election (continued).

4. After selecting a **Line** and **Schedule and Item Number**, enter the applicable values.
5. Press PAGE DOWN to access fields for completing line 10 of Part 2, Notice of Election.



Press F1 in a field to see and select the available options for the **Line** and **Schedule and Item Number** fields.

## — Other Notes on Real Estate —

Be aware of the following information regarding real estate on Form 706:

- Schedule A should include any real property the decedent contracted to purchase. Report the full value of the property (not the equity).
- For jointly owned property that must be disclosed on Schedule E, select **Schedule E** from the **For Schedule** drop list on the **PROP** screen.
- For real estate that is part of a sole proprietorship, select **Schedule F** from the **For Schedule** drop list on the **PROP** screen. Use screen **F** to enter data on the joint depositor or to expand on information regarding safe deposit box contents.
- For real estate that is included in the gross estate under section 2035, 2036, 2037, or 2038, select **Schedule G** from the **For Schedule** drop list on the **PROP** screen.
- For real estate that is included in the gross estate under section 2041, select **Schedule H** from the **For Schedule** drop list on the **PROP** screen.
- If the executor elects to exclude any qualifying conservation easements from the gross estate, complete screen **U** (Schedule U, Qualified Conservation Easement Exclusion).

## Schedule B (Stocks and Bonds)

**Screen:** Schedule B, Stocks and Bonds, is used if the total gross estate contains any stocks or bonds. Open the **PROP** screen, and select **Schedule B** from the **For Schedule** drop list (item #1 in [Figure EST-6 on page 235](#)) to enter information for Schedule B. Generally, list interest and dividends on each stock or bond using a separate screen **PROP**. (An exception applies to estate, inheritance, legacy, or succession tax paid to foreign countries.) See [“Description,” below](#), for general guidelines on completing fields applicable to Schedule B. For additional guidance, see the field-level help or the IRS instructions.

## — Description —

For the **Description** (item #2 in [Figure EST-1 on page 226](#)), list the stocks and bonds that are included in the decedent's gross estate. Use a different **PROP** screen (press PAGE DOWN) for each stock or bond (or lot thereof). Note the following:

- Bonds exempt from federal income tax are not exempt from estate tax unless specifically exempted by an estate tax provision of the Code. These bonds should be listed in the **Description** field on the **PROP** screen but no value entered.
- Public housing bonds that are part of the gross estate must be included at their full value.
- If the estate paid any estate, inheritance, legacy, or succession tax to a foreign country on any stocks or bonds included here, list those stocks or bonds using one **Description** box, and enter the label, *Subjected to Foreign Death Taxes*.

## — Value —

Enter the total value of the securities in the **Value** field (item #3 in [Figure EST-6](#)). This amount should refer to the value of the asset on the date of death unless an alternate valuation date is elected.

## — Unit Value —

Enter the unit value per share of each stock or bond at the time of the decedent's death in the **Unit value** field. The **Unit value** field is located below the **Description** field (item #5 in [Figure EST-6](#)).

Figure EST-6: For Schedule B (Item #1), Enter a Description (#2), a **Value** (#3), and **Unit value** (#5)

The screenshot shows the 'Estate Property' screen with the following fields highlighted:

- For Schedule:** A dropdown menu showing 'B' (highlighted with a red box and a red circle containing '1').
- Description:** A text input field containing 'STOCKS AND BONDS' (highlighted with a red box and a red circle containing '2').
- Value:** A text input field containing '50000' (highlighted with a red box and a red circle containing '3').
- Alternate Date:** A text input field.
- Alternate Value:** A text input field.
- Unit value:** A text input field containing '1020' (highlighted with a red box and a red circle containing '5').
- CUSIP number for Schedules B, E, or F:** A text input field.
- If for Sch B:** A text input field.
- If for Sch E:** A text input field.

Checkboxes at the bottom:

- Alternate date is six months after date of death
- Alternate value is the same as value at date of death



Use the **Alternate Date** and **Alternate Value** fields (item #4 in [Figure EST-6](#)) if an alternate valuation is adopted.

## — CUSIP Number —

A Committee on Uniform Security Identification Procedure (CUSIP) number is assigned to all stocks and bonds traded on major exchanges and many unlisted securities. This number is typically printed on the face of the stock certificate. Enter the CUSIP number from the stocks or bonds in the field labeled **CUSIP number for Schedules B, E, or F**.

## Schedule C (Mortgages, Notes, and Cash)

**Screen:** **Schedule C, Mortgages, Notes, and Cash**, is selected from the **For Schedule** drop list on the **PROP** screen if the total gross estate contains any mortgages, notes payable to the decedent at the time of death, or cash at the time of the decedent's death.

General guidelines for completing the fields applicable to Schedule C are similar to those provided in preceding sections. For more specific instructions on each field, see the field-level help for the **Description** field (click inside the **Description** text box and press F1), or the IRS instructions.

## — Order of Items —

Use a separate **PROP** screen (press PAGE DOWN) for each item for Schedule C. List items in the following order:

- a. Mortgages
- b. Promissory notes
- c. Contracts by decedent to sell land
- d. Cash in possession
- e. Cash in banks, savings and loan associations, or other types of financial organizations

## — Description —

For mortgages, the **Description** should include face value, unpaid balance, date of mortgage, date of maturity, name of maker, property mortgaged, interest dates, and interest rate. List promissory notes in same manner as mortgages.



There is a limited amount of information that will be accepted in the **Description** field. Be as brief as possible and abbreviate where you can. If you still cannot fit everything in, go to the **SCH** screen (accessible from the **Supplement Forms** tab), enter a title referring to the Schedule C, and complete your description.



If entering multiple items, use a new **PROP** screen for each description. While in the **PROP** screen, press PAGE DOWN to open a new screen

See IRS instructions for entering contracts and cash.

## Schedule D (Insurance on Decedent's Life)

**Screens:** **PROP, 712** If the estate is required to file Form 706, and there was any insurance on the decedent's life, whether or not it was included in the gross estate, you must complete Schedule D, Insurance on the Decedent's Life.

From the **PROP** screen, select **Schedule D** from the **For Schedule** drop list and enter information for Schedule D. In the **Description** text box, list the name of the insurance company and the number of

the policy. If entering multiple policies, use a new **PROP** screen for each. (While in the **PROP** screen, press PAGE DOWN to open a new screen.) For every policy of life insurance listed on the schedule, you must request a statement on Form 712, Life Insurance Statement, from the company that issued the policy.

Complete screen **712** in Drake Tax (available from the **Supplemental Forms** tab of the **Data Entry Menu**). Press PAGE DOWN to view and complete Part II. (If reporting more than one policy, from screen **712**, press CTRL+PAGE DOWN.) Attach all Forms 712 to the back of Schedule D. Include insurance on the decedent's life receivable by or for the benefit of the estate, and insurance on the decedent's life receivable by beneficiaries other than the estate.

For specific instructions on each Schedule D field, see the IRS instructions.

## Schedule E (Jointly Owned Property)

**Screen: PROP** Schedule E, Jointly Owned Property, is used if the decedent owned joint property (real estate, personal property, or bank accounts) at the time of death, regardless of whether the decedent's interest is includable in the gross estate. Use the **PROP** screen to enter information for Schedule E. When in the **PROP** screen, select **Schedule E** from the **For Schedule** drop list.

Review the following general guidelines for completing the fields applicable to Schedule E. For more specific instructions on each field, see the field-level help in the **Description** field, or the IRS instructions.

### — PROP Screen and E2 Screen —

A joint interest is a “qualified” joint interest if the decedent and the surviving spouse held the interest as *either* of the following:

- Tenants by the entirety
- Joint tenants with right of survivorship if the decedent and the decedent's spouse are the only joint tenants



Note that the **E2** screen might be needed for certain interests. Use the **PROP** screen to enter interests that meet either of the two requirements listed above. Use the **E2** screen (available from the **Property** section of the **Form 706 Estate Forms** tab of the **Data Entry Menu**) to enter joint interests that do not meet either requirement. Data entered on the **E2** screen flows to Part 2 of Schedule E on the return.

## Schedule F (Other Miscellaneous Property)

**Screen:** Schedule F, Other Miscellaneous Property Not Reportable Under Any Other Schedule, is used for miscellaneous property that must be included in the gross estate but is not reported on any other schedule. Use the **PROP** screen to enter information for Schedule F. When in the **PROP** screen, select **Schedule F** from the **For Schedule** drop list.

Following are some general guidelines for completing the fields applicable to Schedule F. For more specific instructions on each field, see the field-level help in the **Description** field of the **PROP** screen, or the IRS instructions.



If entering multiple items, use a new **PROP** screen for each description. While in the **PROP** screen, press PAGE DOWN to open a new screen.

### — Schedule F Items —

Specifically, the following types of items should be included on Schedule F:

- Debts due the decedent
- Interests in business
- Insurance on life of another
- Section 2044 property
- Claims, rights, and royalties
- Leaseholds, judgments
- Reversionary interests
- Shares in trust fun
- Household goods, personal effects
- Automobiles
- Farm products, growing crops
- Livestock, farm machinery

### — Business Interest —

If the decedent owned interest in a partnership or unincorporated business, attach a statement of assets and liabilities for the valuation date and for the five years before the valuation date, and attach statements of net earnings for the same five-year period.



- Report partnership interests on Schedule F unless the interest is jointly owned; use Schedule E for jointly owned partnerships (see ["Schedule E \(Jointly Owned Property\)" on page 237](#)).
- If real estate is owned by sole proprietorship, use Schedule F (not Schedule A). Use the same degree of detail as if reporting on Schedule A (see ["Schedule A \(Real Estate\)" on page 233](#)).

## — Schedule F Check Boxes —

Use the check boxes in the middle of the **PROP** screen to report art, collectibles, bonuses, awards, and access to a safe deposit box ([Figure EST-7](#)).

Figure EST-7: Schedule F Check Boxes on **PROP** Screen

<b>If for Sch F:</b>	<input type="checkbox"/> Art or collectibles more than \$3,000 (\$10,000 combined)
	<input type="checkbox"/> Received bonus or award as a result of employment or death
	<input type="checkbox"/> Access to safe deposit box

## — Safe Deposit Box —

Indicate if the decedent had **Access to safe deposit box**. If the decedent had a jointly held safe deposit box and the contents are not reported on any other schedules, use screen **F**, accessible from the **Property** section of the **Form 706 Estate Forms** tab, to enter the following information:

- Name and relationship of the joint owner
- Reason that the contents were not included on another schedule

Screen **F** should be used only for data regarding joint access to a safe deposit box. Data entered here is printed under question 3 (regarding safe deposit box) of Schedule F on the return.

## Schedule G (Transfers)

**Screens:** If section 2032A valuation was elected (from the **#2** check box in **Part 3** of screen **1**), both Schedule G (Transfers During Decedent's Life) and Schedule A-1 (Section 2032A Valuation), must be filed. If you answered "Yes" (marked those check boxes) to questions 11b or 12 on screen **2**, complete Schedule F or Schedule G. If the decedent made any of the following transfers, complete Schedule G:

- Certain gift taxes (section 2035 (b))
- Other transfers within three years before death (section 2035(a))
- Transfers with retained life estate (section 2036)
- Transfers taking effect at death (section 2037)
- Revocable transfers (section 2038)

Schedule G also must be filed if any section 2035, 2036, 2037, or 2038 transfers were made.

Use the **PROP** screen for Schedule G, and use the **A1** screen, accessible from the **Property** section of the **Form 706 Estate Forms** tab, for Schedule A-1. Complete screen **A1** for Schedule G using the steps outlined earlier for Schedule A. (See the steps in ["2032A Valuation" on page 233](#).)

For specific instructions on each Schedule G field, see the field-level help in the **Description** field of the **PROP** screen, or the IRS instructions.

## Schedule H (Powers of Appointment)

**Screen:** Schedule H, Powers of Appointment, must be submitted if question 14 of Form 706, Part 4, is answered "Yes." (In other words, if the decedent ever possessed, exercised, or released any general power of appointment and the line **14** check box on screen **2** is marked.) Use the **PROP** screen to enter information for Schedule H. When in the **PROP** screen, select **Schedule H** from the **For Schedule** drop list.

For specific instructions on each Schedule H field, see the field-level help in the **Description** field of the **PROP** screen, or the IRS instructions.

## Schedule I (Annuities)

**Screen:** Schedule I, Annuities, must be submitted if question 16 of Form 706, Part 4, is answered "Yes." (In other words, if the decedent was receiving an annuity at the time of death). (See line **16** on screen **2**.) Use the **PROP** screen to enter data for Schedule I. When in the **PROP** screen, select **Schedule I** from the **For Schedule** drop list.

Following are some general guidelines for completing the fields applicable to Schedule I. For more specific instructions on each Schedule I field, see the IRS instructions.

### — Description —

In describing an annuity, provide the grantor's name and address and specify if the annuity is under an approved plan. If it is under an approved plan, indicate the ratio of the decedent's contribution to the total purchase price of the annuity.

If the decedent was employed at the time of death and the annuity became payable to a surviving beneficiary, indicate the ratio of the decedent's contribution to the total purchase price of the annuity.

### — Excluding Lump-Sum Distribution —

If lump sum distributions are being excluded from the list of annuities, mark the box in the **If for Sch I** line of the **PROP** screen ([Figure EST-8](#)).

Figure EST-8: Check Box Indicating Exclusion of Lump-Sum Distribution on **PROP** Screen

<b>If for Sch I:</b>	<input checked="" type="checkbox"/> Excluding lump-sum distribution (section 2039(f)(2))
----------------------	------------------------------------------------------------------------------------------

## Schedule U (Qual. Cons. Easement Exclusion)

**Screen:** Schedule U is required if the executor elects to exclude any qualifying conservation easements from the gross estate. In Drake Tax, use screen **U**, accessible from the **Property** section under **Form 706 Estate Forms** tab, to enter data for Schedule U. See the IRS instructions for details on completing this schedule.



A worksheet is required if, at the time of the contribution of the conservation easement, the value of the land subject to the easement, or the value of any retained development right, was different from the estate tax value. To have Drake Tax calculate this worksheet, mark the **Worksheet is required** box near the top of screen **U**.

## Form 8971, Info. re: Beneficiaries

**Screens:** The IRS requires Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent, to be filed for any Form 706 to report the basis of assets reported on the Form 706 and who inherited the asset.



Form 8971 is generated when data is entered on screens **BENE** and **PROP**. The **PROP** screen is available from the **Property** section of the **Form 706 Estate Forms** tab of the **Data Entry Menu**, and **BENE** screen is available from the **Supplemental Forms** tab.

When the return is calculated, Form 8971 is produced, along with a Schedule A for each listed beneficiary. Supply each beneficiary with a copy of the beneficiary's Schedule A for filing with that person's or entity's tax return. On screen **BENE**, report the date the executor provided the beneficiary with Schedule A of Form 8971.



If the beneficiary inherited only a cash distribution, open the **PROP** screen and mark the **Cash bequest...** check box on the **For 8971** line. No Form 8971, Schedule A, will be required or produced.

## Deductions (Schedules J – M; Schedule O)

In Drake Tax, total gross estate information flows primarily from data entered on the **PROP** (Estate Property) screen, the **U** (Schedule U) screen, and certain screens listed in the **Deductions** section on the **Form 706 Estate Forms** tab of the **Data Entry Menu**.

The following sections cover the these screens from the **Deductions** box:

- **Screen J** — Schedule J, Funeral & Administration Expenses
- **Screen K** — Schedule K, Debts, Mortgages, & Liens
- **Screen L** — Schedule L, Net Losses, Admin Expenses
- **Screen M** — Schedule M, Bequests to Surviving Spouse
- **Screen O** — Schedule O, Charitable, Public Gifts

### Schedule J (Funeral and Other Expenses)

**Screen: J** Funeral and certain other expenses are deductible. These expenses should be reported on Schedule J, Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims. In Drake Tax, use screen **J** to report these expenses.

Screen **J** has fields for up to two funeral expenses and up to two miscellaneous expenses. Press PAGE DOWN to open a blank screen **J** and enter additional expenses.



Itemize funeral expenses in the top two **Description** and **Expense** fields. Exclude any amounts that were reimbursed (such as death benefits payable by the Social Security Administration or the Veterans Administration). Press PAGE DOWN for another Schedule J screen.

Mark the box to the right of a line if a protective claim has been filed for that expense.

See the IRS instructions for further guidance in completing Schedule J.

## Schedule K (Debts, Mortgages, and Liens)

**Screen:** Debts, mortgages, and liens against the decedent are reported on Schedule K, Debts of the Decedent, and Mortgages and Liens. Use screen **K** to report this data. Following are brief descriptions of the screen **K** fields. See the IRS instructions for more details, and for exceptions.

- **Debts** — List valid debts the decedent owed at the time of death. Include the creditor and nature of claim, and allowable death taxes.
- **Amount** — Enter the amount being claimed as a deduction.
- **Mortgages and Liens** — List only those obligations secured by mortgages or other liens on property that is included in the gross estate at its full value. Include a description of the mortgage or lien.
- **Amount** — Enter the amount of the mortgage or lien.

If more screens are needed, press PAGE DOWN.

At the top of the **K** screen are two check boxes:

- If the taxpayer is aware of any actual or potential reimbursement to the estate for any debt of the decedent, mortgage, or lien claimed as a deduction on this schedule, mark the top check box.
- If any of the items on this schedule are deductible under Reg. section 20.2053-4(b) and Reg. section 20.2053-4(c), mark the second box.
- Mark the box to the right of a line if a protective claim has been filed for that expense.

## Schedule L (Net Losses and Expenses Incurred)

**Screen:** Schedule L is required in order to claim deductions for net losses during administration of the estate, and for expenses incurred during administration of estate property not subject to claims. Use screen **L** to report this information. Following are brief descriptions of the screen **L** fields. See the IRS instructions for limitations and further explanations.

- **Net losses during administration** — Describe net losses during administration. Do not include losses claimed on a federal income tax return.

- **Expenses incurred for property not subject to claims** — Describe any expenses incurred in administering property that was not subject to claims. Indicate whether estimated, agreed upon, or paid.
- **Amount** — Enter the amount of the loss or expense.

Mark the box to the right of a line if a protective claim has been filed for that expense.

## Schedule M (Bequests to Surviving Spouse)

**Screens:**  
**PROP, M**

Schedule M is required in order to claim a deduction for bequests to the surviving spouse. Generally, Schedule M can include all property interests passing from the decedent to the surviving spouse and that are included in the gross estate. (See the IRS instructions for explanations of terminable interests, nondeductible terminable interests, and QTIP elections.)

### — Using PROP Screen for Schedule M —

Use the **PROP** screen to enter most of the information for Schedule M:

1. Open the **PROP** screen and complete the applicable fields in the top section of the screen (**Description**, **Value**, etc.)
2. On the **Send to Sch M** line, mark the **Send this information to Schedule M** box ([Figure EST-9](#)).

Figure EST-9: Schedule M Section of the **PROP** Screen

3. Enter the amount (if different from the value provided) to flow to Schedule M. A statement is generated with the return that lists the property and stated value.



By default, the value entered in the **Value** field of the **PROP** screen flows to Schedule M in the return. To have different amount flow to Schedule M, mark the check box and enter an amount in the **Amount to be carried to Sch M** override field ([Figure EST-9](#)).

4. If applicable, mark the box on the **PROP** screen to indicate a **QTIP property** and the **Section 20.2010-2T(a)(7)(ii)** check boxes regarding the amount in the override field. (There are **QTIP property** and **Section 20.2010-2T(a)(7)(ii)** check boxes on the **M** screen that affect amounts entered on screen **M**.)

## — Using Screen M for Schedule M —

Use screen **M** to report the following Schedule M information:

- **Line 1 - Qualified disclaimers** — To be a qualified disclaimer, a refusal to accept an interest in property must meet the conditions of section 2518. These are explained in Reg. sections 25.2518-1 through 25.2518-3. If property passes to a surviving spouse, place a check mark in box **1** of screen **M** and attach a copy of the written disclaimer required by section 2518(b).
- **Line 2 - Information about the surviving spouse** — Enter information on the surviving spouse's citizenship status and date of birth.
- **Line 3 - Sect. 2056(b)(7): QTIP** — Use the check box to elect out of QTIP Treatment of Annuities. If you want an entry to appear on both section "A1" and section "B1" of Schedule M, mark the **QTIP** and **Section 20.2010...** check boxes (beneath the **Amount** field) on screen **M**. Press PAGE DOWN for a second screen **M**. Do not mark the line **3** check box on the second screen. The first entry appears in "B1" with additional entries listed on the statement.
- Only on the first item can you reference the QTIP property.
- **Description of the property in the bequest** — If you entered this information on the **PROP** screen and marked **Send to Sch M**, you do not need to re-enter it here.
- **Line 5a - Information about estate taxes, other taxes, and GST taxes** — Enter the amount of federal state taxes, death taxes, and state and federal GST taxes payable out of property interests described in the **Description** fields.

For more information on completing Schedule M, see Drake Tax's field-level helps (click in a field and press F1, or right-click and select **Help > Help for this Field**) and consult the IRS instructions.

## Schedule O (Other Gifts and Bequests)

**Screens:** Schedule O, Charitable, Public, and Similar Gifts and Bequests, must be submitted if the estate **PROP, BENE, O** included gifts to charities, public gifts, or certain bequests. Here are some steps you might take to complete a Schedule O:

1. If a beneficiary of the decedent is, for instance, a charitable organization, open the **BENE** screen (available from the **Supplemental Forms** tab of the **Data Entry Menu**) and enter the contact information for the charity at the top of the screen. At the bottom of the screen, complete the **Form 706, Schedule O** lines, if applicable. (An amount entered in the **Amount distributed...** field overrides an amount entered in the **Value** field of the **PROP** screen.)
2. Open a new **PROP** screen (available from the **Form 706 Estate Forms** tab). Enter a **Description** of the bequest to the charity and the **Value**.
3. Click the **Beneficiary Information** tab at the top of the **PROP** screen.
4. Select the charity from the **TIN** drop list and enter the percentage of the property that was (or will be) acquired by the charity.
5. Open screen **O**. If the bequest to the charity (or any charities, if more than one received bequests) is contested, might be contested, or passed to the charity as a result of a

qualified disclaimer, mark boxes **1a**, **1b**, or **2**, as appropriate.



For any items marked on lines 1a, 1b, or 2, you must provide a statement. Open the **SCH** screen (available on the **Supplemental Forms** tab or by typing **SCH** in the selector field and pressing **ENTER**). Give the statement a title—for instance, “Schedule O, line 1b”—and in the large text box, describe the circumstances of the contested transfer. A statement is generated and printed with the return.

6. Enter in the fields on lines **4a**, **4b**, and **4c** any federal estate taxes, death taxes, and state and federal GST taxes payable out of property interests described in the **Description** fields on the **PROP** screens.

For more information on Schedule O, and for information on what attachments may be required, consult the IRS instructions.

## Filing Instructions

Form 706 and Form 8971 are filed to different locations. These mailing addresses are listed in the filing instructions generated in View/Print mode.

For more information, consult the IRS instructions for Forms 706 and 8971.

## Generation-Skipping Transfer (GST) Tax

Drake Tax provides the following screens for completing forms related to GST tax:

- Screen **R** — For Schedule R, Generation-Skipping Transfer Tax, Part 1
- Screen **R2** — For Schedule R, Parts 2 and 3
- Screen **R1** — For Schedule R-1, Direct Skips From a Trust
- Screen **709** — For Schedule R, Part 1, lines 2 (“Total GST exemption allocated by the decedent”) and 3 (“Total GST exemption allocated by the executor”)

These screens are accessible from the **Form 706 Estate Forms** tab of the **Data Entry Menu**. The **R**, **R1**, and **R2** screens are located in the **Deductions** section, the **709** link is on the left side of the menu.



Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, is filed using the 1040 program in Drake Tax. For more information on completing and filing Form 709, see [“Gift Tax Returns” on page 221](#).

For more information on providing Form 709 information, see the IRS instructions.

## Schedule R

**Screens:** Because some amounts printed on Part 1 of Schedule R flow from Parts 2 and 3, screen **R** has fields for only item 9 of Part I (“Allocation of GST exemption to trusts”). The screen has space for entering data for two items. To add more items, press PAGE DOWN.

On screen **R2**, you can select to have GST information printed on Schedule R, Part 2, or on Schedule R, Part 3, by marking the applicable box ([Figure EST-10](#)). If both boxes are marked, the information flows to Part 2.

Figure EST-10: Selecting to have Part 2 of Schedule R Printed from Screen **R2**

1 Estate tax value.....	<input type="text"/>
2 Taxes borne by property.....	<input type="text"/>
3 GST taxes borne by property.....	<input type="text"/>
6 GST exemption allocated.....	<input type="text"/>
<input checked="" type="checkbox"/> List on Schedule R, Part 2 <input type="checkbox"/> List on Schedule R, Part 3	

## Foreign Death Tax (Sch. P; Form 706-CE)

**Screen:** Use the top section of screen **P** to enter data for Schedule P, Credit for Foreign Death Taxes. Use the bottom section of this screen to enter data for Form 706-CE, Certificate of Payment of Foreign Death Tax.

Note that fields for Schedule P and Form 706-CE are located on the same screen. This screen can be accessed by clicking either **P** or **CE** under the **Form 706 Estate Forms** tab in the **Data Entry Menu**, or by typing either **P** or **CE** in the selector field and pressing ENTER.



If a foreign government refuses to certify Form 706-CE, the form must be filed directly with the IRS. See IRS instructions for completing Form 706-CE.

## Credit for Tax on Prior Transfers (Sch. Q)

**Screen:** Schedule Q is required for claiming a credit for tax on prior transfers. Use screen **Q** to enter data for Schedule Q. This data is calculated and then flows to Form 706, Part 2, line 14, “Credit for tax on prior transfers.”

Use the top section of screen **Q** to enter transferor information for Schedule Q. Use the rest of screen **Q** to complete the Schedule Q worksheet.



To enter multiple transferors, press PAGE Down for a new screen **Q**. Transfer amounts from subsequently added transferors appear in columns B and C of the Schedule Q worksheet. A new Schedule Q and Schedule Q worksheet are generated if there are more than three transferors.

## Completing Form 706-NA in Drake Tax

### Screens:

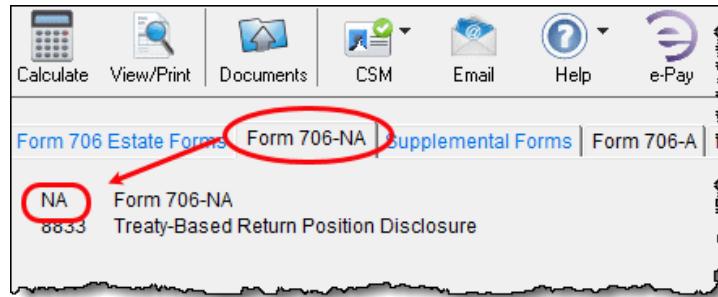
#### DEMO, NA

Form 706-NA computes estate and generation-skipping transfer (GST) tax liability for nonresident alien decedents. The estate tax is imposed on the transfer of the decedent's taxable estate rather than on the receipt of any part of it.

To complete this return, you must obtain Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, and its instructions. Attach schedules from Form 706 if you intend to claim a marital deduction, a charitable deduction, a qualified conservation easement exclusion, or a credit for tax on prior transfers, or if you answer "Yes" to question 5, 7, 8, 9a, 9b, or 11 in Part 3 of Form 706-NA. The Form 706 instructions are needed to explain how to value stocks and bonds.

Begin the process of completing Form 706-NA on screen **DEMO**, then open screen **NA**, either by clicking the **Prepare Form 706-NA** link on the **DEMO** screen, or clicking the **Form 706-NA** tab from the **Data Entry Menu** and selecting **NA** ([Figure EST-11](#)).

Figure EST-11: **Form 706-NA** Tab on the **Data Entry Menu**



## Parts 1 and 2

Screen **NA** consists of Part 1, Decedent, Executor, and Attorney, and Part 2, Tax Computation. Complete **Part 1**, including the decedent's information at the top of the **NA** screen, and the estate's representatives' (executor and attorney) information in the middle of the screen.

At the bottom of the screen, **Part 2** has fields for reporting:

- Taxable gifts
- Unified credit
- Canadian marital credit
- Payments made earlier

"Total taxable gifts" are taxable gifts of tangible or intangible property located in the U.S., transferred by the decedent after December 31, 1976, and not included in the gross estate (see section 2511).

Line 7, **Unified credit**, is an override field. An entry here overrides the maximum unified credit of \$13,000. See the field help (click in the field and press F1) for more information.

In addition to the unified credit, a **Canadian marital credit**—a nonrefundable marital credit—might be allowed if the executor elects this treaty benefit and waives the benefit of any estate tax marital deduction allowable under U.S. law. See the 1995 Canadian income tax treaty protocol for details on computing the credit. Attach a computation of the credit to the return. (Drake Tax prints "Canadian marital credit" on the dotted line to the left of the line 9 entry, as is required.)

If an amount is entered on line 15, **Earlier payments**, use screen **SCH** to attach a statement describing what payments were made.

For more information, see field helps and the IRS instructions.

## Part 3

Click the **Part 3** tab at the top of the **NA** screen to see fields on completing General Information, Schedule A, and Schedule B.

Answer the questions in Part 3. A check mark in a box indicates a "Yes" answer; leave the box blank to answer "No."

If you answer "Yes" to questions 5, 7, 8, 9a, 9b, or 11, you must attach certain schedules.

For instance, a "Yes" answer to question 5 requires Schedule E, Jointly Owned Property, from Form 706, and a "Yes" answer to question 7 requires Schedule G, Transfers During Decedent's Life. (See "[Schedule E \(Jointly Owned Property\)](#)" on page 237 and "[Schedule G \(Transfers\)](#)" on page 239 for more on attaching these schedules.)

In the **Schedule A** section at the bottom of the screen, if you elect to use the alternate valuation date, click the **Gross Estate in the United States** link to open the **PROP** screen and complete the **Alternate Date** and **Alternate Value** fields of the estate property listed.

In the **Schedule B** section, line 2 is for reporting the gross value of the estate outside of the United States.

Line 4 is for deducting the following items whether or not they were incurred or paid in the United States:

- Funeral expenses
- Administration expenses

- Claims against the estate
- Unpaid mortgages and liens
- Uncompensated losses that were incurred during settlement of the estate and that arose from theft or from casualties, such as fires, storms, or shipwrecks

Note that line 4 is an override field. An entry here overrides expenses entered on screen **J**.

See the field help for this line for more information. Access screen **J** from the **Form 706 Estate Forms** tab of the **Data Entry Menu**.

Line 7, “State death tax deduction,” is for deducting death taxes (estate, inheritance, legacy, or succession taxes) paid to any state or the District of Columbia on property listed in Schedule A and entered on the **PROP** screen. (Click the **Gross Estate in the United States** link in the **Schedule A** section to open the **PROP** screen.)

To calculate the deduction for state death taxes, use the formula located in the IRS instructions. Enter the results in the field on line 7.

## Treaty-Based Disclosure

**Screen:** Form 8833 must be used by taxpayers to make the treaty-based return position disclosure required by section 6114 and the Regulations section 301.6114-1. The form must also be used by “dual-resident taxpayers” to make the treaty-based return position disclosure required by Regulations section 301.7701(b)-7. Generally, a taxpayer who takes a treaty-based return position must disclose that position unless reporting is specifically waived. See instructions for exceptions from reporting.

Click the **8833** link from the **Form 706-NA** tab of the **Data Entry Menu** to complete Form 8833, Treaty-Based Return Position Disclosure under section 6114 or 7701(b).

If you are reporting any items on this return based on the provisions of a death tax treaty or protocol, attach a statement to this return indicating that the return position is treaty-based. See Regulations section 301.6114-1 for details.

On screen **8833**, click the **Line 6** link at the top of the screen and, in the text box, type in the treaty-based return position the taxpayer is taking.

Attach a separate Form 8833 for each treaty-based return position taken. Failure to disclose a treaty-based return position may result in a penalty of \$1,000 (\$10,000 in the case of a corporation). (See section 6712.)

# Form 706-A

An heir is required to submit Form 706-A, U.S. Additional Estate Tax Return, to report certain additional estate taxes imposed by section 2032A. Use the screens listed under the **Form 706-A** tab of the **Data Entry Menu** to enter most 706-A information.



To file Form 706-A, the qualified heir and the tax return preparer must both sign the return.

## Part I: Heir and Decedent Information

**Screens:** To enter information for the heir and decedent on Form 706-A:  
**DEMO, 706A**

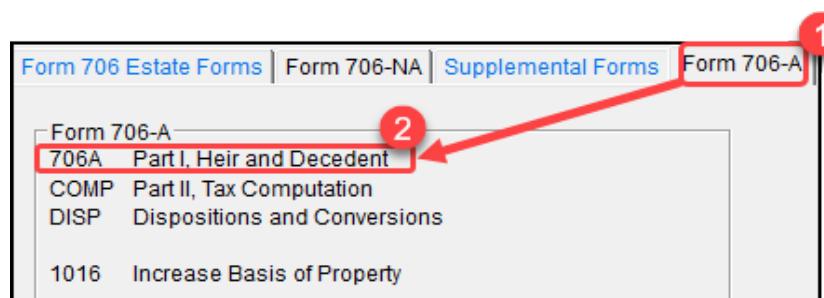
1. Open the 706-A return in Drake Tax. (For information on creating a new return, or on creating a 706-A return for an existing client, see ["Estate Returns for Individuals" on page 225](#).) By default, the program displays the **DEMO** screen when a new 706 return is created.
2. After verifying that the heir's name and SSN are correct on the **DEMO** screen, click the **Prepare Form 706-A** link at the top of the **DEMO** screen to open screen **706A**.



A name can be corrected on screen **DEMO**. If the SSN is incorrect, however, you must select **Tools > File Maintenance > Change ID Number on Return** from the **Home** window menu bar in order to correct it. See the [2023 Drake Tax Manual](#) for more information on changing an SSN. (PPR users must use another return if changing an SSN, thus reducing the number of their returns.)

3. Alternately, close the **DEMO** screen and go to the **Form 706-A** tab of the **Data Entry Menu** to access the menu listing all Form 706-A screens ([Figure EST-12](#)), and then click to open the **706A** screen.

Figure EST-12: Click the **Form 706-A** Tab from the **Data Entry Menu** (#1), and Click Screen **706A** link (#2)



4. Complete all applicable fields for the qualified heir and the decedent.



The **706A** screen also has fields for entering an invoice number, fields for overriding preparation fees, firm, preparer, and data-entry operator information, plus a field for entering a preparer's alternative e-signature PIN.

For more on using these fields, see the [2023 Drake Tax Manual](#).

## Part II: Tax Computation

**Screen:** Use the **COMP** screen to enter data for Form 706-A, Part II, Tax Computation. See the IRS instructions for more information on completing this section of the form.

## Form 706-A Schedules

**Screen:** Use the **DISP** screen to enter data for the Form 706-A schedules, listed below:

- Schedule A, Disposition of Specially Valued Property or Cessation of Qualified Use
- Schedule B, Involuntary Conversions or Exchanges
- Schedule C, Dispositions to Family Members of the Qualified Heir

To enter data for one of the Form 706-A schedules:

1. Open the **DISP** screen, accessible from the **Form 706-A** tab.
2. From the **For Schedule** drop list, select the schedule to which the screen should apply ([Figure EST-13](#)).

Figure EST-13: Select a Schedule from the **For Schedule** Drop List

706-A Dispositions and Conversions	
For Schedule	<input type="button" value="A"/> <input type="button" value="B"/> <input type="button" value="C"/>
Description	A Schedule A - Disposition of Specially Valued Property or Cessation B Schedule B - Involuntary Conversions or Exchanges C Schedule C - Dispositions to Family Members of the Qualified Heir

3. In the fields provided, enter the description, schedule letter, item number, and disposition date.
  - The **Description** should match that used on the Form 706 filed for the decedent.

- The **Form 706 Sch** and **Item #** boxes should have the letter and item number used to report the property on the decedent's Form 706.
- The **Disposition date** is the date of disposition or the date that qualified use ceased for the property.

4. Complete the remaining applicable fields. See the IRS instructions and Drake Tax field helps for more information on specific fields on Schedules A, B, and C.

To enter additional dispositions, press PAGE DOWN.

## Section 1016(c) Election

**Screen: 1016** Use the **1016** screen, accessible from the **Form 706-A** tab, to have the heir elect section 1016(c) to increase the basis of specially valued property. In the first box, enter the amount of interest to be paid on the additional estate tax due because of the section 1016(c) election. In the other three boxes, type in the Form 706 schedule, item number, and description of the property to which the election is made.

## Form 706-QDT

Screens for completing Form 706-QDT, U.S. Estate Tax Return for Qualified Domestic Trusts, can be accessed from the **Form 706-QDT** tab ([Figure EST-14](#)) of the **Data Entry Menu**, or via the **Prepare Form 706-QDT** link on the **DEMO** screen.

Figure EST-14: **Form 706-QDT** Tab of the **Data Entry Menu**

<a href="#">Form 706 Estate Forms</a>   <a href="#">Form 706-NA</a>   <a href="#">Supplemental Forms</a>   <a href="#">Form 706-A</a>   <b>Form 706-QDT</b>   <a href="#">States</a>																			
QDT Form 706-QDT																			
<b>Schedule A</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>PTI</td><td>Part I, Prior Taxable Distributions</td></tr> <tr><td>PTII</td><td>Part II, Current Taxable Distributions</td></tr> <tr><td>PIII</td><td>Part III, Property in QDOT</td></tr> <tr><td>PTIV</td><td>Part IV, Marital/Charitable Deductions</td></tr> </table>	PTI	Part I, Prior Taxable Distributions	PTII	Part II, Current Taxable Distributions	PIII	Part III, Property in QDOT	PTIV	Part IV, Marital/Charitable Deductions	<b>Schedule B</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>PB2</td><td>Part II, Prior Taxable Distributions</td></tr> <tr><td>PB3</td><td>Part III, Current Taxable Distributions</td></tr> <tr><td>PB4</td><td>Part IV, Taxable Property in Trust</td></tr> <tr><td>PB5</td><td>Part V, Marital Deductions</td></tr> <tr><td>PB6</td><td>Part VI, Charitable Deductions</td></tr> </table>	PB2	Part II, Prior Taxable Distributions	PB3	Part III, Current Taxable Distributions	PB4	Part IV, Taxable Property in Trust	PB5	Part V, Marital Deductions	PB6	Part VI, Charitable Deductions
PTI	Part I, Prior Taxable Distributions																		
PTII	Part II, Current Taxable Distributions																		
PIII	Part III, Property in QDOT																		
PTIV	Part IV, Marital/Charitable Deductions																		
PB2	Part II, Prior Taxable Distributions																		
PB3	Part III, Current Taxable Distributions																		
PB4	Part IV, Taxable Property in Trust																		
PB5	Part V, Marital Deductions																		
PB6	Part VI, Charitable Deductions																		



The **QDT** screen contains override fields for fee, firm, preparer, and data-entry operator. It also has fields for assigning an invoice number (optional) and entering the preparer's alternative e-signature PIN. For more on using these fields, see the [2023 Drake Tax Manual](#).

## Parts I, II, and III

**Screen:** **QDT** Use the **QDT** screen to enter data for Parts I, II, and III of Form 706-QDT. Use the top half of the screen for Part I, General Information. Use the check boxes and other fields in the **Part II Elections** section (at the lower of the screen) to complete Part II, Elections by the Trustee/Designated Filer. Use the fields in the **Part III Tax Computation Override** section (above Part II) to complete Part III, Tax Computation.



When no name is entered in the **Name of designated filer** field on screen **QDT**, Schedule A is generated with Form 706-QDT; when a name is entered in that field, Schedule B is generated.

## Schedule A

Schedule A of Form 706-QDT consists of four parts:

- Part I, Summary of Prior Taxable Distributions
- Part II, Summary of Current Taxable Distributions
- Part III, Summary of Property Remaining in QDOTs at Death of Surviving Spouse
- Part IV, Summary of Marital and Charitable Deductions

Use the **PTI**, **PTII**, **PIII**, and **PTIV** screens to enter data for Parts I, II, III, and IV, respectively. Press PAGE DOWN as needed for additional screens.

## Schedule B

Schedule B of Form 706-QDT consists of six parts:

- Part I, General Information
- Part II, Taxable Distributions from Prior Years
- Part III, Current Taxable Distributions
- Part IV, Taxable Property in Trust at Death of Surviving Spouse
- Part V, Marital Deductions
- Part VI, Charitable Deductions

Part I information flows from the **Name of trust** and **Name of designated filer** fields on screen **QDT**. Use screens **PB2**, **PB3**, **PB4**, **PB5**, and **PB6** to enter data for Parts II, III, IV, V, and VI, respectively. Press PAGE DOWN for additional screens.

## Extensions (706 and 706-A)

**Screen:** Form 4768, Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes, must be submitted in order to apply for an automatic six-month extension of time to file either Form 706 or Form 706-A. In Drake Tax, enter all applicable extension request data on screen **EXT**, located under the **Supplemental Forms** tab.

At the top of the screen ([Figure EST-15](#)), mark the proper box to request an automatic extension or an additional extension of time to file Form 706.

Figure EST-15: Extension Options on Screen **EXT**

If requesting the automatic six-month extension, mark the first box, **Part II - Automatic Extension**.

If the time has passed for a timely filed Form 4768, mark the second box, **Part II - Extension for Cause...** and include a statement with the return explaining—in detail—why a request for automatic extension was not timely made, why it was impossible or impractical to file the return by the due date, and the specific reason why the executor had good and sufficient cause for not requesting the automatic extension in a timely manner.

To include this statement with the return, type in the **Explanation** text box at the bottom of screen **EXT**.

If granted, this extension runs for six months *from the original due date of the return*, not from the date of filing the request.

The *additional* extension request—the third check box, **Part II - Additional extension**—is available only if the executor was out of the country. If the executor has already received a six-month extension and you are applying for an additional extension, include an explanation—using the **Explanation** text box on screen **EXT**—of why a reasonably complete return cannot be filed by the due date.

File Form 4768 early enough to allow the IRS time to consider the application before the extended due date.

## Executor Not Filing Form 4768

If someone other than the estate executor is filing Form 4768 for the estate return, enter that person's name in the text box at the top of the **EXT** screen, and additional filer information in the **Signature and Verification** section in the lower part of the screen. Use Drake Tax's field-level helps for more information on completing each field.

## Form 706-A Due Date

On the **EXT** screen, the **Form 706-A only - Date return is due** box ([Figure EST-15 on page 255](#)) is used only to override the **Disposition date** from the **DISP** screen of the **Form 706-A** tab. The due date will be six months after this date.



A date is required in either the **Form 706-A only - Date return is due** field on the **EXT** screen or in the **Disposition date** field of the **DISP** screen in order to file the extension. If there were no dispositions or conversions, enter the date on the **EXT** screen.

## Extension Request and Amounts to Pay

Use **Part III** of screen **EXT** to request an extension of time to pay estate taxes. After selecting the appropriate box on the left side of the screen, enter a date in the **Extension of time to pay** text box on the right side of the screen. Use **Part IV** to enter the estimated amount of estate and GST tax due and the amount of cash the estate is short of the required total.

In the lower half of screen **EXT**, use the **Explanation** text box to enter an explanation for the extension request. This explanation flows to a statement that is generated when Form 4768 is printed.

## Filing after Extension

If the extension request has already been filed and your client is now ready to file the return, take the following steps:

1. (706 only) On screen **1**, mark the **Time to file this Form 706 was extended** box.
2. On screen **EXT**, select the **Extension was previously filed...** box at the bottom of the screen.

When the return is generated, the program produces a Client Results letter telling the client that the return has been prepared and should be signed rather than an extension letter telling the client that an extension application has been prepared with the return.

## Amending a Return (706 Only)

Screen:  
**DEMO**

To amend an estate (Form 706) return that has already been filed, file another Form 706. Go to screen **DEMO**, select **Amended return**. The words "Supplemental Information" are automatically printed on the amended return. Attach pages 1, 2, 3, and 4 of the original return before mailing.

# Supplemental Forms

Various other screens may be needed for estate returns. To see these screens, open the **Supplemental Forms** tab from the **Data Entry Menu**.

## Life Insurance

**Screen:** Use the **712** screen (Form 712, Life Insurance Statement), accessible from the **Supplemental Forms** tab, to enter information on any life insurance policies that covered the decedent. Note that the **712** screen is split into two screens. After entering the requested policy information, press PAGE DOWN to complete the additional fields.

A separate **712** screen must be completed for each policy. For additional **712** screens, press CTRL+SHIFT+PAGE DOWN.

## Election Options

Certain election options from the IRS code are available for 706 filers. Use the **ELEC** screen, accessible from the **Supplemental Forms** tab, to indicate election options.

## Refund/Request for Abatement (Form 843)

**Screen:** Use screen **843** to complete Form 843, Claim for Refund and Request for Abatement, to claim a refund or request abatement of certain taxes, interest, penalties, fees, and additions to tax.

Screen **843** is available from the **Supplemental Forms** tab or by typing 843 in the selector field and pressing ENTER.

Mail Form 843 to the service center where you would file a current-year tax return for the tax to which the claim or request relates, unless responding to IRS letter or notice. See IRS instructions for the return you are filing.

## Form 911 Filing Requirements

**Screen:** Form 911, Request for Taxpayer Advocate Service Assistance, can be completed through Drake Tax. **911** The Taxpayer Advocate Service (TAS) is the taxpayer's voice at the IRS. TAS might be able to help if the taxpayer (estate or beneficiary) is experiencing a problem with the IRS and:

- The problem with the IRS is causing financial difficulties for the estate or beneficiary.
- The estate or beneficiary faces an immediate threat of adverse action.

- The estate or beneficiary has tried repeatedly to contact the IRS, but no one has responded, or the IRS has not responded by the date promised.

Screen **911** is accessible from the **Supplemental Forms** tab

For more information:

- Log on to the TAS website ([taxpayeradvocate.irs.gov/get-help](http://taxpayeradvocate.irs.gov/get-help)).
- Read Publication 1546, Taxpayer Advocate Service.
- Call (877) 777-4778.

## Other Screens

On the **Supplemental Forms** tab is the link to screen **PC**, used to complete Schedule PC, Protective Claim for Refund. A protective claim for refund preserves the estate's right to a refund of tax paid on any amount included in the gross estate which would be deductible under section 2053 but has not been paid or otherwise will not meet the requirements of section 2053 until after the limitations period for filing the claim has passed.

For information on the other supplemental screens—such as the **BILL** screen, the **COMM** and **LTR** (Letter) screens, the **NOTE** (Preparer's Notes) screen, the **PAD** (Preparer's Notepad) screen, the **SCH** (Attached Statement) screen, the **ADMN** (return tracking) screen, or the **8822** (Change of Address) screen—see the [2023 Drake Tax Manual](#).

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