



## SUPPLEMENT: FIDUCIARIES (1041)



# **Drake Software User's Manual**

**Tax Year 2014**

**Supplement: Fiduciaries  
(1041)**

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# Fiduciary Returns (1041)

The basics of data entry on a fiduciary (1041) return are the same as for the 1040. Field- and screen-level help, shortcut keys, and navigation throughout data entry all function as they do in the 1040. See the *Drake Software User's Manual: Tax Year 2014* for the basics of using the program.

## What's New in Drake for 2014

Drake programs its tax software according to the latest IRS rules and regulations. The 2014 program reflects all changes to credits and deductions, including discontinuations. For details on the new regulations for the 2014 tax year, see the IRS instructions for Form 1041.

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

### Estimated Taxes Screen

The **ES** screen has been redesigned this year to provide a way to e-file state estimated tax vouchers and payments, which is required in some states. The functionality of the federal section of the **ES** screen is unchanged.

The other change is for estimated taxes from multiple states or cities. Rather than filling out several **State/City** sections on the **ES** screen, now you press PAGE DOWN and go to a new **ES** screen.

For details on using the enhanced **ES** screen for filing federal estimated taxes, and on e-filing and paying state estimated taxes, see "Estimated Taxes," in Chapter 5 of the *Drake Software User's Manual: Tax Year 2014*.

### Unlimited Forms 2848

You can now enter an unlimited number of representatives on the redesigned **2848** screen when filling out Form 2848, Power of Attorney. When you need another **2848** screen to enter information on another representative, press PAGE DOWN.

### New ACA Fields on Form 8941

Fields were added to the bottom of the **8941** screen to allow you to complete the two new lines at the top of Form 8941, Credit for Small Employer Health Insurance Premiums. These new lines, added by the IRS, determine if an employer has provided health

care coverage for its employees as mandated by the Affordable Care Act, and determines if the estate or trust is eligible to use Form 8941.

**Form 3115** Form 3115, Application for Change in Accounting Method, is now available in the 1041 package and eligible for e-file. See “Form 3115, Application for Change in Accounting Method” on page 29 for details of using Drake to file this form.

### Safe Harbor Elections

A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

Two other elections are now available from the **Election** drop list on the **ELEC** screen:

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

See “Safe Harbor Elections” on page 26 for more.

### Rounding Beneficiary

Drake gives you a way to select a “rounding” beneficiary. By marking a check box on screen **K1** (Figure 1), you can select which should be the “rounding” partner. That partner will be listed last on the list of partners and will be the one who receives any balancing amount on Schedule K-1 when the return is calculated.

K1 Overrides		Code	Amount	Code	Amount
1	Interest income	=	222	9	Directly apportioned deductions
2a	Ordinary dividends	=		13	Credits and credit recapture
2b	Qualified dividends	=			

Figure 1: Rounding Partner check box

If you do not make a selection, the software will designate as the rounding beneficiary the first beneficiary you entered. If you select more than one rounding beneficiary, the program generates a Return Note telling you that you’ve chosen more than one rounding beneficiary, and also tells you which beneficiary will be used as the rounding beneficiary and which won’t.

### Other Changes to the Fiduciary Package

Other changes, additions, and enhancements were made to the 1041 package.



- The **F/B/G** drop lists have been removed from all screens and replaced on screens **8949, DIV, INT, C, or F** by a **Grantor** check box and on screen **3468 (Investment Credit)**, with a **Beneficiary Percentage** field.
- On screens **C** and **F**:
  - The **City** drop list and **Employee ID #** field were removed.
  - An entry in the **Other Expense** field now opens a CTRL+W worksheet.
  - A check box was added for carrying the result to line 7 of Form 8960, Net Investment Income Tax. Fields were added for prior-year at-risk losses for both regular and AMT tax purposes.
- On screen **E**, a check box was added for carrying the result to line 7 of Form 8960, Net Investment Income Tax. Fields were added for prior-year at-risk losses for both regular and AMT tax purposes.
- A link to screen **5** was added to screens **E, F, and C** for preparers who elect to carry depreciation to Schedules E, F, or C instead of Schedule K-1.
- The foreign-account questions were removed from the **INT** screen and foreign account questions and drop lists were added to screen **5**.
- On screen **3**, the “Interest Income” and “Ordinary Dividend Income” and “Qualified Dividends” amount fields were removed. (Links are provided to the **Interest Income** and **Dividend Income** screens.)
- Screen **WKK1** was added to give you a way to re-determine classes of income that is being distributed on Schedules K-1 (based on the percentage entered on screens **K1**). The calculations for individual Schedules K-1 can be overridden on the **K1** screens but only after changes have been made on screen **WKK1**. (Amounts entered in Income override fields -- excluding line 2b -- must equal amount generated for line 18 of the 1041, page 1.)
  - Screen **K14B** was added to give you a place to enter information needed to distribute foreign taxes paid or accrued to the beneficiaries. Notes and links to this screen have been added to screens **1116, INT, and DIV** to inform preparers that entries there are only for computing a foreign tax credit for the estate or trust.
- Worksheet **WK\_B2** has been redesigned and renamed **WK\_TAXEX** Worksheet for Allocating Tax-Exempt Income.
- An **Electronic Funds Withdrawal** screen (**PMT**) has been added for electronic payment of a balance due with Forms 1041 or 7004. (Estimated payment must be mailed in or paid through EFPTS.)
- A **Direct Deposit** screen (**DD**) was added for direct deposit of refunds. (Available for states only. Access this screen from the **States** tab of the **Data Entry Menu**.)
- AMT functionality has been added to screen **D2** and we've given preparers a way to allocate capital gains to the beneficiary as desired.
- The **Grantor** drop list on screen **1** has been replaced with two check boxes, **Full Grantor** and **Partial Grantor**.
- Changes to screens **K1P, K1F, and K1S** include:
  - New tabs. These screens have been divided into two “pages” each. Click the blue tab link at the top of the first “page” to open the second “page.”
  - **For state use only** sections were added

- **Form 8960 entries** section was added
- **Depletion** field (on **K1P** and **K1S** screens) were added
- Foreign address fields were added
- The default **Activity type** is now “B” (Passive) instead of “D” (Active)

## Practice Management Tools

For details on additions and enhancements to Drake’s practice management tools—such as the e-mail program, the letters and billing editor, and the Scheduler—see the *Drake Software User’s Manual: Tax Year 2014*.

## Updating a Prior-Year Return in Drake

If you prepared the tax return last year, you will first need to update it to 2014.

Prior-year returns can be updated in three ways:

- A single return (updated one at a time) using **Last Year Data > Update Clients 2013 to 2014** (recommended)
- When you open the return for the first time in the 2014 program and are prompted to update it
- With all other returns in the program using **Last Year Data > Update Clients 2013 to 2014** (not recommended)

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

### NOTE

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

## About the Grantor Check Box

A **Grantor** check box has been added to screens **8949**, **DIV**, **INT**, **C**, **E**, and **F**, (Figure 2) and a **Beneficiary Percentage** field was added to screen **3468** (Investment Credit).

The image shows a software interface for 'Schedule C - Profit or Loss from Business'. At the top, there is a title bar. Below it, there are several input fields: a checked checkbox labeled 'Grantor' (circled in red), followed by 'F', 'ST', a dropdown menu, 'PAN', and 'NOTE'. Below these are two more fields: 'A Business or Profession/Product or Service' and 'C Business name', each with a small box to its right.

Figure 2: Grantor check box on screen C

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

## Header Information

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

## Estate, Trust and Fiduciary Information

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

If the fiduciary has a mailing address in one state but does business in another, select the state in which the fiduciary does business from the **Resident state** drop list in the **Other Information** section.

### NOTES

If the fiduciary is a financial institution that submitted estimated tax payments for the trusts for which it is the trustee, mark the check box in the **Fiduciary information** section. For the purpose of this form, a financial institution is one that maintains a Treasury Tax and Loan (TT&L) account. Attorneys and other individuals functioning in a fiduciary capacity should not mark this box.

## Name Control

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

## Tax Year

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

### NOTE

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

## Boxes A through G

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

- **Box A** — Type of entity
- **Box C** — Employer identification number (EIN)
- **Box D** — Date entity created
- **Box E** — Check boxes for nonexempt charitable and split-interest trusts

- **Box F** — Check boxes to indicate if a return is an initial, a final, or amended return, and to indicate name change for the trust or an address or name change for the fiduciary
- **Box G** — Check box to indicate if a section 645 election was made and a field to enter EIN of the trust.

**NOTE**

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

**Types of Entities**

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

**NOTE**

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

**About Grantor-Type Trusts**

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

**NOTE**

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

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

Consult the screen help and field-level helps for more information on completing screen **GRS**.

**About Bankruptcy Estates**

*New for 2014:* If the 1041 is for a bankruptcy estate, mark one of the **Bankruptcy Estate** check boxes (for Chapter 7 or Chapter 11) and then click the link to the **BR**

screen. Enter the information on taxes, payments, and penalty. Print the return, attach a copy of the taxpayer's Form 1040, and mail the return.

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

## Income

In Drake, much of the information for the "Income" section of Form 1041 is generated from several sources:

- **Direct entry on screen 3** — If you enter an amount directly on screen **3**, be aware that it will be added to any other amounts flowing to the same line from other screens.
- **Calculations from other screens** — For example, line 3, "Business income or (loss)," is calculated from entries on screen **C** (for Schedule C). As another example, the amount on line 1, "Interest income," might be affected by amounts flowing from screen **INT** (Form 1099-INT) screen **6252** (Form 6252, Installment Sales) or one of the K1 screens: **K1P**, **K1F**, or **K1S**.

## Interest and Dividends

Use screen **INT** to enter information from Form 1099-INT, and use screen **DIV** to enter information from Form 1099-DIV. The **INT** and **DIV** screens in the 1041 package (accessible from the **Income** tab of the **Data Entry Menu**, through links on screen **3**, or by typing **INT** or **DIV** into the selector field and pressing **ENTER**) are similar to those in the 1040 package. For information on entering amounts as percentages and entering state-specific information, see the *Drake Software User's Manual: Tax Year 2014*.

## Business Income or Loss (Schedule C)

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

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

For more information on completing Schedule C and entering vehicle information, see the "Self-Employment Income (Schedule C)" section and the "Auto Expenses" section in Chapter 5, "Return Preparation," of the *Drake Software User's Manual: Tax Year 2014*.)

## Capital Gains and Losses (Schedule D)

Screen codes  
8949, D2

The amount on line 4, “Capital gain or (loss),” flows from entries on screens **8949** and **D2**, both located under the **Assets/Sales** tab of the **Data Entry Menu** in the 1041 package.

### NOTE

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

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

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

- **Applicable check box (Basis not reported...)** — Indicate by selecting an option from the drop list if the basis of the asset was reported to the IRS or if the transaction was not reported on Form 1099-B. (Selection **1** is the default.)
- **Description** — Enter description of capital gain or loss item using stock ticker symbols or abbreviations. (Limit 32 characters.) 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 substitute statement).
- **Date acquired** — Enter the date acquired as an eight-digit number using MMD-DYYYY format. This date is used to determine whether the sale is short-term or long-term. Enter VARIOUS, INHERIT, or INH2010, as applicable. (Only “Various,” “Inherit,” and “Inh2010” are acceptable for e-filing.) Select **S** or **L** from the **Type of gain or loss** drop list to have it treated as short-term or long-term.
- **Date sold or disposed** — If a single date does not apply, type Bankrupt, Worthless, or Expired, as applicable. Select **S** or **L** from the **Type of gain or loss** drop list to have it treated as short-term or long-term. (If Expired is entered, the return must be paper-filed.)
- **Type of gain or loss** — Select from the drop list to describe the gain or loss as long term or short term.
- **Proceeds from sale...** — Enter the sale amount. If only the gain amount is available, enter the gain amount and leave the **Cost or other basis** field blank.
- **Cost or other basis** — Enter the cost or basis. If only the loss amount is available, enter the loss amount and leave the **Proceeds from sale...** field blank.
- **AMT cost basis** — Enter the cost basis for AMT purposes if different.
- **Adjustments** — Up to three adjustments per screen are permitted. For each adjustment, select the applicable code from the drop list and enter the amount of adjustment (and AMT adjustment, if applicable) to the gain or loss.
- **AMT** — Several AMT-related fields are included on screen **8949**:
  - The Capital Gains and Losses worksheet (D\_AMT) will use the same number as the regular Schedule D unless entries are made in the **AMT Adjustment to gain or loss** and **AMT cost basis** fields on screen **8949**.

- **Federal tax withheld** — Enter the amount of federal tax withheld from the proceeds of a sale.
- **Loss not allowed...** — Mark this box if the loss is not allowed based on the amount in box **1d**.
- **Amount of section 1202 gain** — Choose from the drop list the percentage of qualified small business stock that the taxpayer held for five years and then sold:
  - 50% if acquired after 8/10/1993
  - 60% if the small business is in an Empowerment Zone
  - 75% if acquired between 2/18/2009 and 09/18/2010
  - 100% if acquired from 9/28/2010 and 12/31/2013
  - Enter amount of QSB 1202 stock in the second field
- **State Info** — Select state, enter ID number, state tax withheld.
- **State Use Only** — Check with your state for required codes.

### Screen D2, Carryovers & Other Entries

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

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

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

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

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

The fields on lines 17 and 18 are for allocating some or all of the amounts to the beneficiaries. (Calculate the return to have the program fill in the **Fiduciary** column.) Only gains (no losses) can be entered in the **Beneficiaries** column. Amounts entered affect calculations for lines 17, 18, and 19 on Schedule D. Amounts under the **Beneficiaries** column also flow to the appropriate line of Schedule B, and amounts under the **Fiduciary** column flow to the capital gain calculation.

## Rents, Royalties, etc. (Schedule E)

Use screen **E** to enter most Schedule E information. The Schedule E calculation flows to line 5 of the return.

### NOTE

Page 2 of Schedule E (Parts II through V) is calculated from K-1 schedules. The corresponding screens in Drake (**E2**, **E3**, and **E4**) primarily contain override fields; data entered on those screens overrides amounts that would otherwise flow from the K-1 schedules. Enter data on one of these screens only if transcribing from a completed Schedule E.

For Schedule K-1 information, see “Schedule K-1” on page 15.

The **E** screens in the 1041 package are similar to those in the 1040 package. For more information on completing these screens, see the *Drake Software User’s Manual: Tax Year 2014*.

## Income from Pass-Through Entities (Schedule K-1)

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

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

- **Screen K1P** — For a Schedule K-1 issued by a partnership
- **Screen K1F** — For a Schedule K-1 issued by another fiduciary, estate, or trust
- **Screen K1S** — For a Schedule K-1 issued by an S corporation

Enter information directly into a **K1** screen, or export K-1 information from a pass-through entity into a fiduciary return.

When the return is generated, the amounts from pass-through entities flow to the corresponding lines on Form 1041. Specifically where the amounts flow depends on the type of entity. In most cases, the amounts flow to page 2 of Schedule E, but in certain cases, the amounts flow to Form 4797, Form 3800, or page 1 of Schedule E.

### NOTE

For information on completing Schedule K-1 (Form 1041) used to report a beneficiary’s share of income, deductions, and credits from either the trust or the decedent’s estate, see “Schedule K-1” on page 15.

### Form 8960 Entries

*New for 2014:* A new section was added to the **K1** screens for entering amounts that you want to flow to Form 8960, Net Investment Income Tax (see Figure 3 on page 11). Access this section by clicking the **1065 K1 13-20** tab at the top of the **K1P** screen, the **1041 K1 12-14** tab at the top of the **K1F** screen, or the **1120S K1 12-17** tab at the top of the **K1S** screen.



Form 8960 entries	
All amounts entered here will flow directly to the line indicated on Form 8960. They will not flow to any other form.	
	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 corp 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"/>

**Figure 3:** The new **Form 8960** section of the **K1** screens

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. Drake shows the new calculated amount on Form 8960 and generates an 8960\_ATT worksheet to show the calculations.

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

## Farm Income or Loss (Schedule F)

Use screen **F**, accessible from the **Income** tab, to enter farm income or loss. Information from screen **F** flows to line 6 (“Farm income or loss”) of Form 1041. Screen **F** in the 1041 package is almost identical to screen **F** in the 1040 package. For details on completing screen **F**, see the *Drake Software User’s Manual: Tax Year 2014*.

**NOTE** Do not use screen **F** to report farm rental income and expenses based on crops or livestock produced by a tenant. Use screen **E** instead.

## Gain or Loss From Sale of Assets (Form 4797)

Information entered on screen **4797** (accessible from the **Assets/Sales** tab) flows to line 7 (“Ordinary gain or (loss)”) of Form 1041 or to line 14 of Schedule D. Screen **4797** in the 1041 package is almost identical to screen **4797** in the 1040 package. For details on completing screen **4797**, see the *Drake Software User’s Manual: Tax Year 2014*.

## Other Income

Use screen **3** to enter amounts for line 8 (“Other income”) of Form 1041. Enter any type of income that is not reported on lines 1 through 7. (For interest income or dividend income, click the appropriate links on lines 1 and 2 to open the **INT** or **DIV** screens.) For line 8 (“Other Income”) on screen **3**, an entry in the text box opens a CTRL+W worksheet where you enter a description and an amount. Information entered on the CTRL+W worksheet appears in a STATEMENT when the return is generated.

Items reported on line 8 include:

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

### W2, W2G, and 1099R Screens

Links to screens **W2**, **W2G**, and **1099R** were added to screen **3** so the preparer can enter W-2 income, income from gambling, and income from pensions, annuities, retirement, IRAs, etc. These amounts also flow to line 8, “Other Income,” of Form 1041. For details on completing these screens, see “Personal Service Income” and “Gambling Income and Loss” in Chapter 5 of *Drake Software User’s Manual: Tax Year 2014*.

## Deductions

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

## Deduction Allocation

Deductions can be directed to one of the income types listed on screen **3** (Figure 4 on page 12).

Income, Deductions, Payments			
<b>Income</b>			
1	Interest income.....	1	<a href="#">Interest Income</a>
2a	Ordinary dividend income.....	2a	<a href="#">Dividend Income</a>
8	Other income..... <a href="#">W-2</a> <a href="#">W-2G</a> <a href="#">1099-R</a>	8	
<b>Deductions</b>			
10	Interest (Do not include amount from Form 4952).....	10	
11	Taxes.....	11	
	Amount of tax from line 11 that is also deductible on resident state return.....		
12	Fiduciary fees.....	12	
14	Attorney, accountant, and return preparer fees..... <a href="#">AGI</a>	14	
15a	Other deductions NOT subject to the 2% floor.....	15a	
15b	NOL carryback (enter NOL carryforward amounts on the 'LOSS' screen)..... <a href="#">LOSS</a>	15b	
15c	Allowable miscellaneous deductions subject to the 2% floor.....	15c	
19	Estate tax deduction.....	19	<a href="#">Estate Tax Deduction</a>
<b>Tax and Payments</b>			
24a	2014 estimated tax payments and amount applied from 2013.....	24a	<a href="#">Estimates</a>
24b	Estimated tax payments allocated to beneficiaries.....	24b	
	1041-T date filed..... <input type="checkbox"/> Mark if Form 1041-T is being filed separately		
24d	Tax paid with extension.....	24d	<a href="#">Form 7004</a>
24e	Federal income tax withheld..... <input type="checkbox"/> Mark if any is from Form 1099	24e +/-	
26	Penalty for underpayment of estimated taxes..... <a href="#">Form 2210</a>	26	
29a	Amount of overpayment to be applied to 2015 estimate.....	29a	<a href="#">Estimates</a>
	<input type="checkbox"/> Apply deductions against non-capital gain income first <b>1</b>		
<b>Override amounts of deductions allocated to income type when distributing on K1</b>			
1 - Interest	2 - Dividends	3 - Short Term Cap Gain	4 - Long Term Cap Gain
= <input type="text"/>	= <input type="text"/>	= <input type="text"/>	= <input type="text"/>
5 - Other Portfolio Income	6 - Ordinary Business Income	7 - Net Rental Real Estate	8 - Other Rental Income
= <input type="text"/>	= <input type="text"/>	= <input type="text"/>	= <input type="text"/>

**Figure 4:** Screen 3, Applying deductions against ordinary income (#1); allocating income type (#2)

Below line 29a on screen **3** is an **Apply deductions against non-capital gain income first** check box (item #1 of Figure 4). If you mark this box, the deductions entered on lines 10 through 19 of screen **3** will be applied against ordinary income and will pre-

serve the preferential tax rate so that the beneficiaries receive maximum capital gain treatment. For more information, see the field help for this check box, or the IRS instructions.

The **Override amount of deductions...** fields on screen **3** (item #2 in Figure 4) allow you to allocate amounts from certain lines to certain income types rather than allowing the program to allocate the expenses according to character of the income. The total for these boxes should be no more than the total of all deductions listed in lines 10 through 15c.

## Interest Deductions

Use screen **3** to enter interest amounts for line 10 (“Interest”) of Form 1041. See the field-level help for line 10 or click **Screen Help** on screen **4952**, or consult IRS instructions for the types of interest to include on line 10.

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

## NOTES

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

For more information on the investment interest expense deduction, click **Screen Help** on screen **4952**, the IRS instructions for Form 4952, or Pub. 550, Investment Income and Expenses.

## Taxes

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

## Fiduciary Fees

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

## NOTE

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

## Charitable Deductions (Schedule A)

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

The calculation for Schedule A flows to line 13 when the return is generated. Entries are also shown in the “Schedule A” section on page 2 of the 1041 return. Worksheet WK\_TAXEX in View mode also displays the calculations for charitable contributions allocated to tax-exempt income.

For more on WK\_TAXEX, see “WK\_TAXEX Worksheet” on page 24.

## Attorney, Accountant, and Return Preparer Fees

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

### NOTE

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

## Other Deductions

Use screen 3 to enter data for lines 15a, 15b, and 15c of Form 1041 (Figure 5).

14	Attorney, accountant, and return preparer fees.....	AGI	14	
15a	Other deductions NOT subject to the 2% floor.....		15a	
15b	NOL carryback (enter NOL carryforward amounts on the 'LOSS' screen).....	LOSS	15b	
15c	Allowable miscellaneous deductions subject to the 2% floor.....		15c	
19	Estate tax deduction.....		19	Estate Tax Deduction

Figure 5: Lines 15a and 15b on screen 3

Note that line 15a is for other deductions not subject to the 2% floor, while line 15c is for allowable miscellaneous itemized deductions that are subject to the 2% floor.

### TIP

To override calculated amounts for lines 10, 12, 13, 14, 15a, and 15c, use the WK\_TAXEX - Worksheet for Tax Exempt Income section at the bottom of screen 5.

### NOTES

The **LOSS** link, shown in Figure 5, takes you directly to the **LOSS** screen, where NOL carryforwards can be recorded.

For examples of deductions that can be reported on lines 15a and 15c, see the IRS instructions for Form 1041.

## Income Distribution Deduction

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

### Schedule B

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

**Adjusted Tax-Exempt Interest**

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

**Sch A, Line 4 Adjustment**

Section **Schedule B** of screen **4** has a field for line 4 (“Adjustments for Schedule A, line 4”) of Schedule B. This field is an adjustment field; an amount entered here combines with the amount entered on line 4 of Schedule A. (This pertains only to trusts other than simple trusts.)

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

**Total Distributions**

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

**Schedule K-1**

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

To see the formula used when calculating the amount for Schedule K-1, see worksheet **WK\_K1** in View mode. For general help for the **K1** screen, go to **FAQ** item M, “Help for Schedule K-1.”

**NOTES**

For information on entering income from a pass-through entity as reported on a Schedule K-1, see “Income from Pass-Through Entities (Schedule K-1)” on page 10.

**Schedule K-1, Part I**

Part I of the Schedule K-1 (Information About the Estate or Trust), is completed automatically based on the information entered on screen **1** of Drake. (See “Estate, Trust and Fiduciary Information” on page 5.)

**Schedule K-1, Part II**

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

- **ID number** — An **EIN or other** drop list is included to indicate if the ID number is an EIN or if this K-1 is for a Form 1042S, Foreign Person’s U.S. Source Income Subject to Withholding. (Form 1042S does not require an ID number.)
- **Rounding Beneficiary** — Mark this check box to indicate a rounding beneficiary. That beneficiary will be sorted last on the list of beneficiaries, and will be the one who receives any balancing amount on Schedule K-1 when the return is calculated.
- **Name and Address** — Separate fields are provided for street address, city, state, and ZIP code. (As with most Drake addresses, an entry in the ZIP code field auto-

matically fills in the city and state fields.) To use the foreign address fields, enter data in the **Address** and **City** fields, click in the **Foreign ONLY Province/State** field, then enter the name of the foreign province or state, as appropriate. Select the appropriate foreign country from the drop list and then enter the postal code, if appropriate.

- **Resident State** — Select the resident state from the drop list, if needed.
- **Percentages** — Use the **Fed %** and **State %** fields to indicate the percentage of income, deductions, or credits that the beneficiary received. For instance, to divide the income, deductions, or credits equally among four federal K-1s, enter 25—for 25 percent—in each beneficiary’s **Fed %** text box.
- **Foreign beneficiary** — Mark the **Foreign beneficiary** box to indicate that the beneficiary is a nonresident alien individual, a foreign corporation, or a foreign estate or trust

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

**NOTE** From the **K1** screen, press PAGE DOWN to create additional K-1 schedules.

### Schedule K-1, Part III

Part III of the Schedule K-1 (Beneficiary’s Share of Current Year Income, Deductions, Credits, and Other Items) is completed automatically by the program based on information entered elsewhere in the program. Use the corresponding fields on screen **K1** *only* if you want to override program calculations for a particular item. For instance, if you place an entry in the override field of line 2a, “Ordinary dividend income,” the program accepts this amount (up to the amount in column A of the WK\_K1 worksheet in View mode); otherwise the program uses the amount calculated on WK\_K1 worksheet multiplied by the beneficiary’s percentage.

### Flow of Depreciation

To have the depreciation amount claimed on a schedule (such as Schedule C, E, or F) rather than flow to the beneficiary’s Schedule K-1, go to screen **5** and mark the **K1** box that states, **Do NOT carry depreciation to Schedule K-1 but to the Schedules**. (The trust instrument, state law, or federal law should provide guidance.) Note that an estate or trust cannot make an election under section 179 to expense certain tangible property.

### K-1 Cover Letters

You can select to generate K-1 cover letters with all 1041 returns from the **Home** window of Drake. Go to **Setup > Options > Optional Documents** tab and mark the **Include K-1 letters with returns** check box. The letters will contain the name and title entered on the **PIN** screen of the person who will sign the letters.

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

1. Open the **K1L** screen, accessible from the **Miscellaneous** tab, for the return. (This is also the **LTR** screen.)
2. At the bottom of the screen, type in the name and title of the person who will sign the K-1 cover letter. (See NOTES, following.)

3. (optional) Select **Do not print entity information...** in order to prevent the name and address of the estate or trust from appearing in the heading of the K-1 letter or on the coversheet produced with the letter. (See NOTES, following.)

If you have opted to print the K-1 letters but wish to override the name and title of the person entered on the **PIN** screen, enter a name and title of the person to sign the letter on the fields of the **K1L** screen.

## NOTES

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

Review the following sections of the *Drake Software User's Manual: Tax Year 2014* before making changes to letter templates:

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

## NOTE

For an amended return, the K-1 letter automatically refers to the amended K-1. To edit the letter for an amended K-1, from the **Home** window of Drake, go to **Setup > Letters**. Click **Open > Fiduciary > Fiduciary K1 Amended**. Follow the steps outlined in “Introduction to Letters in Drake” in Chapter 2 of the *Drake Software User's Manual: Tax Year 2014* to make changes in the letter.

## K1G General Explanation

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

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

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

## NOTE

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

## Estate Tax Deduction

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

Use the **Estate Tax Deduction** screen, accessible through the link on line 19 of screen **3**, to enter data for this line. Amounts entered on the **Estate Tax Deduction** screen generate worksheet WK\_ESTTX, with calculations flowing to line 19 (“Estate tax deduction including certain generation-skipping taxes”) of Form 1041, and box 10 (“Estate Tax Deduction”) of the Schedules K-1.

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

## Exemption

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

- Trusts that must distribute all income are allowed a \$300 exemption. (Other types of trusts receive a \$100 exemption.)
- Estates receive a \$600 exemption
- Estates and trusts filing their final returns (marked **Final return** in section **F** of screen **1** in Drake) receive no exemption.

## Tax and Payments

For the “Tax and Payments” section of the Form 1041, the totals come from information entered on screen **3** and elsewhere in the program.

## Tax Computation (Schedule G)

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

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

### Lump-Sum Distributions

An amount on line 1b of Schedule G comes from calculations made when data is entered on screen **4972**.

### Alt Min Tax

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

## NOTE

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



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

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

**Foreign Tax Credit** Line 2a (“Foreign tax credit”) is calculated by the program based on information entered on screen **1116** (for Form 1116, Foreign Tax Credit). There is no input field for line 2a on screen **4**.

**General Business Credits** Use screen **3800** to complete Form 3800, General Business Credit. This screen, available from the **Credits** tab of the **Data Entry Menu**, consists mostly of override fields for passive activity credits (see “Passive Activity Credits,” following); data should be entered in the override fields only to override the program’s calculated amounts from Form 3800, Part III, General Business Credits or Eligible Small Business Credits

## NOTE

Part III was added to the form to reflect all the general business credits reported on Form 3800 and to identify the type of credit being reported: General Business Credits (GBC) or Eligible Small Business Credits (ESBC). In Drake, use screen **GBC** to complete Part III.

The **GBC** screen is used for reporting the following types of information:

- Data for current-year credits reported on forms Drake does not support (To enter data for a credit programmed into Drake, use the credit’s screen. For example, use the **8820** screen for Form 8820, Orphan Drug Credit.)
- GBC and ESBC carryforwards and carrybacks.

## NOTE

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

**Passive Activity Credits** The **Passive Activity Credit Carryover (PACR)** screen, available from the **Credits** tab of the **Data Entry Menu**, streamlines data entry and increases the number of passive credit carryforward amounts that can be updated each year. It is to be used for returns requiring passive activity credit calculations for Forms 8582-CR (Passive Activity Credit Limitations) and 3800 (General Business Credit). For more on the **PACR** screen and related worksheets produced, see “Passive Activity Credits” in Chapter 5, “Return Preparation,” of the *Drake Software User’s Manual: Tax Year 2014*.

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

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

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

## IMPORTANT

You must enter the administration expenses on screen **AGI** in order to determine the proper amount of adjusted gross income used in the calculation of net investment income tax.

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

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

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

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

**Line 7 Computation** If an obligation arising from the disposition of real property to which section 453A or section 453(l) applies is outstanding at the close of the year, the estate or trust must include the interest due under section 453(l) or section 453A(c) in the amount to be entered on line 7 of Schedule G, Form 1041, and attach a statement showing the computation.

From line 7 of the Schedule G section of screen **4**, click the **Required STM** link to open the **SCH (Unformatted Statement)** screen (Figure 6 on page 21). (If you have entered other statements, an **Existing Forms** list is opened. Double-click the **New Record** line to open a new statement window.)

From the **Type of attachment/statement number and title** drop list, select “011 - 1041 Sch G Ln 7, deferred tax.” In the large text pane, show your computations for the amount you entered on line 7 of screen **4**.

**Figure 6:** From the **SCH** screen, select “011” from the drop list and show your computation in the text box

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

## Payments

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

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

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

### Estimated Payments and Amount Applied from Prior Year

Drake offers several ways to enter estimated tax amounts that were applied from the prior-year tax return and paid in the current year. The preferred method is to enter quarterly and total amounts on the **ES** screen, accessible from the **Other Forms** tab.

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

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

**NOTES** For details on using the enhanced **ES** screen for filing federal estimated taxes, and on e-filing and paying state estimated taxes, see “Estimated Taxes,” beginning on page 183 of the *Drake Software User’s Manual: Tax Year 2014*.

See Form 1041 instructions for more information on estimated taxes.

### Estimated Payments Allocated to Beneficiaries

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

*New for 2014:* Drake has changed the way you enter estimated tax payments that are allocated to the beneficiaries. To enter these amounts and to generate Form 1041-T, Allocation of Estimated Tax Payments to Beneficiaries, open screen **3** and go to line 24b. Enter in this field any of the estimated tax paid on Form 1041-ES that is allocated to the beneficiaries. This amount flows to line 10 of Schedule B (line 9 for simple trusts), the K-1, and to the 1041-T if the **K1** screens contain data.

- If an amount is entered in the 24b field, a filing date is required. Form 1041-T must be filed within 65 days of the end of the tax year or the election is invalid.
- A 1041 return with an amount on line 24b may not be e-filed.
- The election to allocate estimates to beneficiaries can be made only by a trust, or in the final year of an estate.

## NOTES

### Tax Paid with Extension

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

For more information on filing Form 7004, see “Filing an Extension” on page 42.

### Federal Income Tax Withheld

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

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

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

## NOTE

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

### Other Payments (Forms 2439 and 4136)

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

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

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

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

### Estimated Tax Penalty

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

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

**NOTE** To calculate the tax penalty, the program uses the amount of tax paid from the previous year. If the return was not updated from last year, you must manually enter the amount of tax paid. To do so, go to screen **1** and complete the **2210 Section** in the bottom-right corner of the screen.

### Other Information

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

### Tax-Exempt Income

If the estate or trust received tax-exempt income, the total is calculated from amounts entered on other screens for tax-exempt income— for instance, on line 8 of **INT** screen or line 10 of the **DIV** screen. The “Yes” column in the “Other Information” section of page 2 of Form 1041 is marked and the amount appears on line 1 (as noted in Figure 7):

Other Information		Yes	No
1	Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Enter the amount of tax-exempt interest income and exempt-interest dividends ▶ \$ 11,321		
2	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?	<input type="checkbox"/>	<input type="checkbox"/>
3	At any time during calendar year 2013, did the estate or trust have an interest in or a signature or other authority over a bank securities, or other financial account in a foreign country?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

**Figure 7:** Notation on line 1 of the “Other Information” section that tax-exempt interest and/or dividends were received and shows the amount

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

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

### **WK\_TAXEX Worksheet**

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

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

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

## **Foreign Bank Information**

If the estate or trust had an interest in or signature over a bank, securities, or other financial account in a foreign country, click the **Yes** check box on line 3 of screen **5**.

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

To e-file the FBAR through Drake, open screen **FBAR** (accessible from the **Other Forms** tab of the **Data Entry Menu**) and click the link to the Financial Crimes Enforcement Network's BSA e-Filing System's website.

## **IMPORTANT**

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

## **Seller-Provided Financing**

If the estate or trust is claiming an interest deduction for qualified residence interest paid on seller-provided financing, the IRS requires an attachment with the name, address, and taxpayer ID of the seller. To enter this information, click the **Paid** link on line **5** to open the **Qualified Residence Interest Paid on Seller-financed Mortgage** screen. This screen accepts information for up to three sellers. Entering information

on this screen generates an indicator in the “Yes” column on line 5 in the “Other Information” section on page 2 of Form 1041 and generates a statement containing information on the sellers.

If the estate or trust *received* seller-financed mortgage interest, go to the **INT** screen and enter the *payer’s* information in the **If seller-financed mortgage interest** section.

To enter information on an installment sale, click the **6252** link from line 5 of screen **5**.

## Estate Open Two+ Years

Mark box 8 on screen **5** if the decedent’s estate has been open for more than two years. The IRS requires a separate explanation for the delay in closing the estate. To create this explanation in the program, go to the **SCH** screen, select **R** from the **Type of attachment** drop list, enter the explanation in the large text box on that screen, and enter a title at the bottom of the screen. A statement entitled “REG\_NOTE” is generated in View mode.

## Elections

The **ELEC (Election Options for 1041)** screen allows the preparer to make various “elections” from the IRS code. If you mark a box on this screen, go to the **SCH** screen to produce a statement for the election. From the **Type of attachment** drop list on the **SCH** screen, select **E - Election Explanation**, as shown in Figure 8 on page 25. Enter an explanation for the election in the text box. At the bottom of the screen, enter a title for the statement if you wish.

**Figure 8:** Completing election statement on **SCH** screen

The program produces a Preparer Note (listed as “Election” in View/Print mode) noting the election selected (Figure 9 on page 26).

Elections		2014 PG02
Names(s) as shown on return	Your Social Security Number	
Fred's Fiduciary	81-1111111	
We elect to claim on line 18 that this is for a Cemetery Perpetual care fund, in accordance with Section 642(i) Trust		

**Figure 9:** The election explanation appears as an “Election” statement

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

## Safe Harbor Elections

*New for 2014:* A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

**NOTE** This Safe Harbor election covers buildings only.

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

### New Options on ELEC Screen

Two other elections are now available from the **Elections** drop list on the **ELEC** screen:

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

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

Elections		2014 PG01
Names(s) as shown on return	Your Social Security Number	
William & Amelia Carter	400-00-6665	
I have filed Form 4361 and received approval from the IRS to be excluded from SE tax.		
Title: Section 1.263(a)-1(f) de minimis safe harbor election		
Name: William Carter		
Address: 1234 Main Street, Franklin, NC 28734		
TIN: 400-00-6665		
Statement: Taxpayer is making the de minimis safe harbor election under Section 1.263(a)-1(f).		

**Figure 10:** Election statement generated with **ELEC** screen selection

The Sec. 1.263(a) - 3(h) election can be made from either the **ELEC** screen or the **4562** screen.



## The PDF Attachment Process

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

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

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-filing

These steps are described in the following sections.

### Creating a PDF File

To create a PDF file:

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

**TIP** It's a good idea to use the DDM scanning feature for this step.

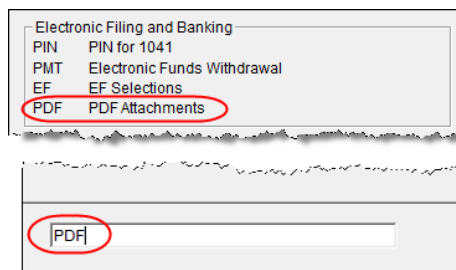
2. Save the document to your client's DDM file, your computer's desktop, or anywhere you can readily find it.

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

### Adding PDF Documents in Drake

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

1. Open the return in Drake. From the **Data Entry Menu**, click **PDF Attachments**, accessible from the **Electronic Filing** section of the **General** tab (or type PDF in the selector field and press ENTER). (See Figure 11)



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

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

**Table 1: PDF Attachment Window Columns**

Name of Column	Description	Examples
<b>Reference Source</b>	Name or number of regulation, publication, or form instruction that makes attachments necessary	- IRS Pub xxx-1.4 - Form Instructions for 1041
<b>Description</b>	Description of form or document to be attached	- Title of house on Oak Street - Appraisal of Lot 1234
<b>File name</b>	Distinctive, easily recognizable file name, followed by ".pdf"	- TitleHouseOakSt.pdf - AppraisalLot1234.pdf

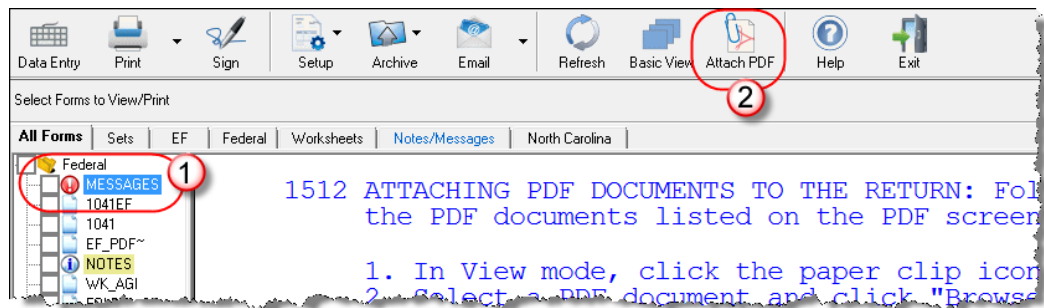
3. Exit the **PDF Attachments** window.

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

**Attaching Documents to the Return**

To attach a PDF file to a return:

- From the return, click **View**. If anything was entered in the **PDF Attachments** window (see "Adding PDF Documents in Drake," previously), there will be two PDF-related items in the **View/Print** window:
  - An EF Message alert (item #1 in Figure 12 on page 28)
  - An **Attach PDF** button on the toolbar (item #2 in Figure 12 on page 28)



**Figure 12: The MESSAGES file (1) and the Attach PDF button (2)**

- Click the **MESSAGES** file to view EF messages, including information on how to attach the required documents to the return.
- Click the **Attach PDF** button. The **EF PDF Attachments** window displays the information entered on the **PDF Attachments** window in data entry. A red X means the document has not yet been attached; a green check mark indicates an attached document (Figure 13).

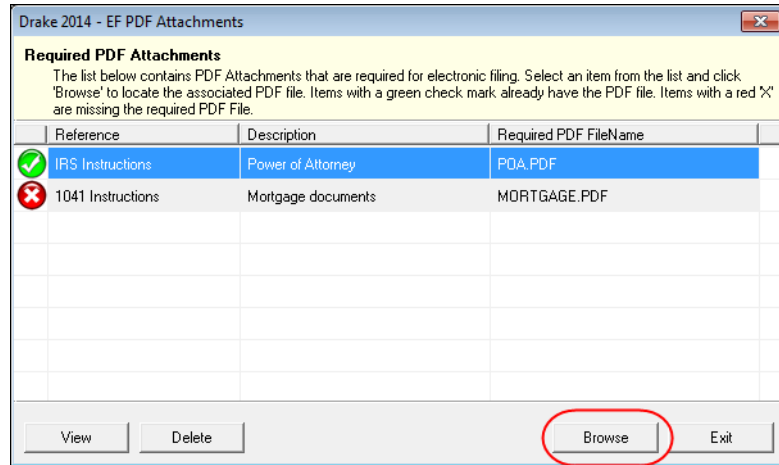


Figure 13: The EF PDF Attachments window

4. Click the row of a document to attach.
5. Click **Browse**.
6. Browse to the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name).

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

## Form 3115, Application for Change in Accounting Method

*New for 2014:* Form 3115 is eligible for e-file. Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either an entity's overall accounting method or the accounting treatment of any material item.

NEW FOR  
2014

Form 3115 is eligible for e-file.

Drake customers can fill out and e-file Forms 3115 and related schedules and attachments for trust and estate returns. This section provides instructions for completing this form and related schedules and attachments in Drake.

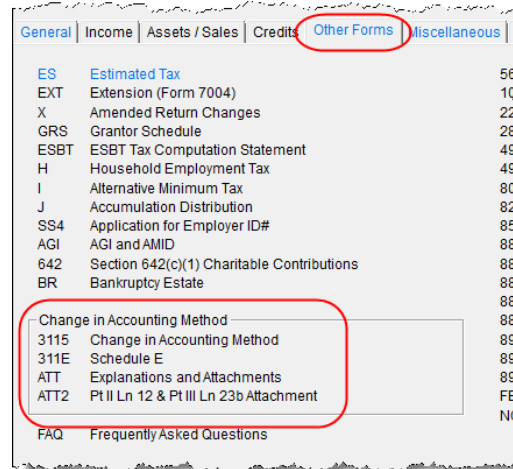
NOTES

In some cases, Form 3115 must still be paper-filed. See "Parts I and III," starting on page 31, for details.

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

## Accessing Screens for Changing Accounting Method

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



**Figure 14:** Screens for Form 3115, Application for Change in Accounting Method

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

- Screen **3115 (Change in Accounting Method)** — Used to access fields for Form 3115, including Schedules A through D
- Screen **311E (Schedule E)** — Used to request a change in depreciation or amortization methods
- Screen **ATT (Explanations and Attachments)** — Used to create and view certain attachments to be generated by the software
- Screen **ATT2 (Pt II Ln 12 & Pt III Ln 23b Attachment)** — Used to complete certain parts of Form 3115 that require specific attachments

### Multi-form Codes

All **3115** and related screens contain a **Multi-form code** text box (shown in Figure 15 on page 31) 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. The first should be 1, the second 2, and so on. When using other screens, such as the **311E** or **ATT** screens, you can use those numbers to indicate which instance of Form 3115 the **311E** or **ATT** screen should be associated with.

## NOTE

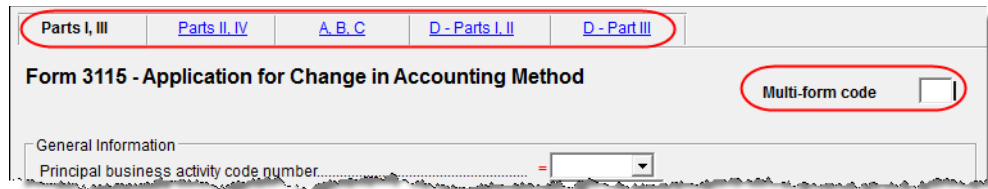
If only one Form 3115 is being submitted, you do not need to enter anything in the **Multi-form code** box.

## Form 3115 Screens

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

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

As shown in Figure 15, you can access these **3115** screens by clicking a link at the top of any other **3115** screen.



**Figure 15:** Tab links on **3115** screen

The next few sections of this document provide instructions for completing the various screens for Form 3115 (including Schedules A through D).

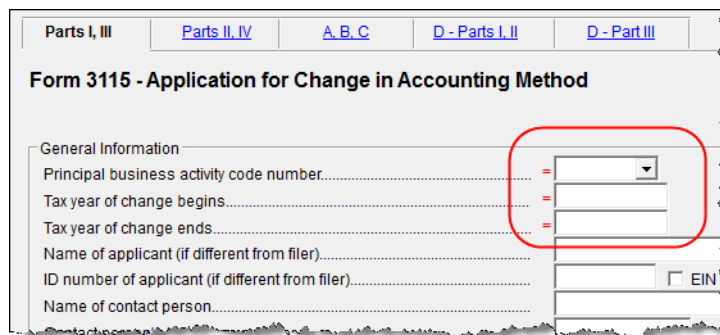
**Parts I and III** Use the **Parts I, III** screen to complete the following sections of Form 3115:

- General Information
- Part I, Information For Automatic Change Request
- Part III, Information For Advance Consent Request

**NOTE** Information should be entered in either the **Part I** section or the **Part III** section, but not both.

**General Information**

Complete all applicable fields in the **General Information** section. Note that the fields for business activity and tax-year change are override fields (Figure 16 on page 31). Complete these fields only if you want to override the equivalent information entered on screen **1** or screen **K**.



**Figure 16:** Override fields in the **General Information** sections of the **Parts I, III** screen

On the **Type of accounting method change being requested** line, select **Depreciation or amortization**, or **Financial products and/or financial activities**. If request-

ing another method, describe it in the **Other** text box. (The text box is limited to 20 characters.)

## NOTE

For advance consent requests, state in the **Other** text box the type of method change being requested and a short description of the change (for example, LIFO to FIFO.)

For automatic change requests, these informational requirements are satisfied by properly completing Part I, lines 1a and 1b of Form 3115. (See "Part I," following.)

**Part I** From the drop list on line 1a, choose a **Designated accounting method change number**. If the method is not listed, enter the method on line 1b, in the **Other** text box.

## IMPORTANT

The IRS issued Rev. Proc. 2014-16 to explain how taxpayers can elect to automatically change their accounting methods in order to comply with provisions of the final capitalization regulations. Rev. Proc. 2014-54 further explains how taxpayers can elect to automatically change their accounting methods for the disposition of property in order to conform with the regulations relating to the disposition of capital assets.

Other resources include Drake's Knowledge Base article 13402. (For information on using the Drake Knowledge Base, see Chapter 10 of *Drake Software User's Manual: Tax Year 2014*.)

If any of the scope limitations of section 4.02 of Rev Proc. 2008-52 apply, mark the **Yes** check box on line 2.

## IMPORTANT

By answering **Yes** on line 2, you are stating that the Appendix of Rev. Proc. 2002-9 or the procedures in other published guidelines specifically state that the scope limitations are applicable to the required accounting method change.

If you answer **Yes** on line 2, you must complete all the lines in **Part II, Information for All Requests**. (Click the **Parts II,IV** link at the top of the screen to access Part II.)

See Form 3115 instructions for more information.

After answering 1a, 1b, and 2 in **Part I - Information for Automatic Change Request**, click the blue **Parts II, IV** tab at the top of the screen.

**Part II** In **Part II – Information for All Requests**, answer question **3** (see Figure 17). If the answer is **Yes**:

- Ordinarily, the IRS will not consent to a request for a change in method of accounting for the applicant's final tax year. If the applicant ceases to engage in the trade or business to which the desired change in accounting method relates or terminates its existence in the year of change, the applicant is ordinarily not eligible to make the change under automatic change request procedures unless the applicable section of the Appendix of Rev. Proc. 2011-14 or other applicable pub-

lished guidance states that section 4.02(5) of Rev. Proc. 2011-14 does not apply to the requested change in method of accounting. If the change is requested under the advance consent procedures, the IRS National Office will consider the reasons for the change in the applicant's final year (see Part III, line 21) in determining whether to approve the requested change.

- See IRS Form 3115 instructions for details.

**Figure 17:** Automatic Change Request information

**NOTE** Not all applicants are eligible to use the automatic change request procedures.

**Part III** If this section of the **Parts I, III** screen is filled out, Form 3115 cannot be e-filed with the return. It must instead be paper-filed *before* submitting the return. A user fee (a check or money order payable to the IRS) must be included with the paper-filed form.

See Appendix A of Rev. Proc. 2012-1 for more information. For more on applicants who must apply for advance consent, see the IRS Form 3115 instructions.

**NOTES**

Taxpayers filing under an automatic change request procedure do not pay a user fee.

If the applicant qualifies for a *reduced* user fee, enter a check mark on line **23b** and go to screen **ATT2** to complete the attachment information for Part III, line 23b (located in the bottom half of the screen). Include the necessary information or certification required by Rev. Proc. 2013-1 (or its successor).

Specific statements must also be attached to the return if the applicant answers **Yes** for line **18** (“Is change request allowed under automatic change?”) or **No** for line **22** (“All members of consolidated group use proposed method?”). Press F1 in a specific field for more information on attachment requirements. The method for attaching statements in Drake is covered in “The PDF Attachment Process” on page 27.

### Parts II and IV

In addition to the **Multi-form code** text box, the **Parts II, IV** screen consists of the **Part II** and **Part IV** sections, used to complete the following sections of Form 3115:

- Part II, Information For All Requests
- Part IV, Section 481(a) Adjustment

Applicants must complete both sections of this screen. For more information on each line (including instructions for any required attachments), press F1 in a specific field.

**Part II, Line 12** Note that there is no field on the **Parts II, IV** screen for Part II, line 12. There is, instead, a link to screen **ATT2**. Fields for line 12, which should be completed if the applicant is changing *only* the accounting method for a particular item or items, are located in the top half of **ATT2** screen. Use these fields to enter information on:

- The items being changed
- The applicant's present and proposed methods for the items being changed
- The applicant's present overall method of accounting (cash, accrual, or hybrid)

Note that the bottom half of the **ATT2** screen is for completing Part III, line 23b. Only the top half (for Part II, line 12) must be completed for Part II, line 12.

### Schedules A, B, and C

Use the **A, B, C** screen to complete the following sections of Form 3115:

- Schedule A, Change in Overall Method of Accounting (screen covers Part 1, Change in Overall Method)
- Schedule B, Change to the Deferral Method for Advance Payments
- Schedule C, Changes Within the LIFO Inventory Method (screen covers both Part I, General LIFO Information, and Part II, Change in Pooling Inventories)

## NOTE

Schedule A, Part II (Change to the Cash Method for Advance Consent Request) requires attachments and is not addressed on the **A, B, C** screen.

**Schedule A** This section is required for all applicants filing to change their overall method of accounting. It requires the entry of amounts as they were at the close of the tax year preceding the year of the requested change.

## NOTE

Leave blank any lines that aren't required for the entity's application. Exclude amounts not attributable to the change in method of accounting—for example, amounts that correct a math or posting error, or that correct errors in calculating tax liability.

The IRS requires a worksheet for lines 1a, 1c, 1d, 1e, and 1f of Schedule A. When you enter an amount on any of these lines in Drake, a CTRL+W worksheet is automatically opened, allowing you to begin entering the descriptions and amounts of multiple items for the worksheet. When you close a CTRL+W worksheet, the program returns to the original screen and displays the total in the field. The field is shaded (default is red) to indicate that a CTRL+W worksheet has been used.

## NOTE

If nothing is entered in a Schedule A field, the program automatically displays the word "NONE" in the field on the generated form.

**Schedule B** This section has just two lines, both referring to the request for deferral for advance payments:

- **Line 1** — Request change to the deferral method for advance payments (from section 5.02 of Rev. Proc. 2004-34)
- **Line 2** — Request change to the deferral method for advance payments (from section 1.451-5(b)(1)(ii))



See IRS Form 3115 instructions for more information on making these requests.

**Schedule C** This section has two parts:

- **Part I** (General LIFO Information) — This section is made up of attachment links. If any of the conditions on lines 1–6 match the entity’s situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement. (Select the corresponding line code from the **Schedule** drop list on the **ATT** screen.)
- **Part II** (Change in Pooling Inventories) — Enter the descriptions of the contents and the base years of the present and proposed pools. If any of the conditions on lines 2–4 match the entity’s situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement.

**Schedule D,  
Parts I and II**

Use the **D - I, II** screen to complete the following parts of Form 3115, Schedule D, Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets:

- Part I, Change in Reporting Income From Long-Term Contracts
- Part II, Change in Valuing Inventories Including Cost Allocation Changes

**NOTE**

If an entity is currently using a LIFO inventory method or submethod and is changing to another LIFO inventory method or submethod, Part II of Schedule D is not applicable. Use Schedule C, Changes Within the LIFO Inventory Method, instead.

**Schedule D,  
Part I**

A long-term contract refers to any contract for the manufacture, building, installation, or construction of property that is not completed in the tax year in which it is entered into. Answer the questions in **Part I** that apply to the entity’s situation.

**Schedule D,  
Part II**

This section concerns changes in the identification and valuation methods of inventories. Note that some lines require attachments. To access the **ATT** screen and complete a required statement, click the desired attachment link.

The items on this part of the screen match the items on the actual Form 3115, Schedule D. For information on completing individual lines, see the Form 3115 instructions.

**NOTE**

If the entity is unable to furnish a copy of Form 970 (line **5a**), the attachment must include the following statement:

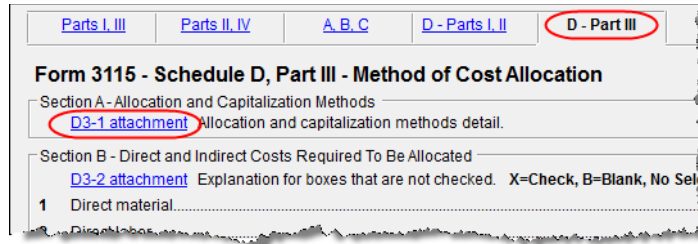
“I certify that to the best of my knowledge and belief (name of applicant) properly elected the LIFO inventory method by filing Form 970 with its return for the tax year(s) ended (insert date(s)) and otherwise complied with the provisions of section 472(d) and Regulations section 1.472-3.”

**Schedule D,  
Part III**

Use the **D - III** screen to complete Part III (Method of Cost Allocation) of Form 3115, Schedule D. Part III is required for any entity submitting either Part I or Part II. Screen **D - III** consists of the following sections:

- Section A, Allocation and Capitalization Methods
- Section B, Direct and Indirect Costs Required to be Allocated
- Section C, Other Costs Not Required to be Allocated

**Section A** Click the **D3-1 Attachment** link (see Figure 18) to attach a description of the present and proposed methods used to capitalize direct and indirect costs.



**Figure 18:** Link to ATT screen for attaching statements

**Sections B and C**

Sections B and C consist of a series of drop lists under a **Present** column and a **Proposed** column. “Present” refers to the current accounting method, while “proposed” refers to the requested change in accounting methods. You should address only the items necessary; do not make a selection for any item for which an answer is not required for the entity’s situation.

For each item in sections **B** and **C**, you can:

- **Select X** — If you select **X**, the corresponding box on Form 3115 will be marked with an **X**. (See Figure 19.)
- **Select B** — If you select **B**, the corresponding box on Form 3115 will be left blank and an attachment will be required explaining why the line was left blank. (EF Messages will outline which statements are missing.)
- **Select nothing** — If you select neither of the above options, “N/A” will appear in the corresponding box on Form 3115. No attachment is necessary for a box marked “N/A.”

personal property produced or property acquired for resale under section 263A or all other long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

	Present method	Proposed method
1 Direct material	X	N/A
2 Direct labor	X	N/A
3 Indirect labor	X	N/A
4 Officers' compensation (not including selling activities)		N/A
5 Pension and other related costs	N/A	N/A
6 Employee benefits	N/A	N/A
7 Indirect materials and supplies	N/A	N/A
8 Purchasing costs	N/A	N/A
9 Handling, processing, assembly, and repackaging costs	N/A	N/A

Applies to this return (points to lines 1-3)

Requires statement (points to line 4)

Not applicable to this return (points to lines 5-9)

**Figure 19:** X was selected for column 1, lines 1-3; B was selected for column 1, line 4; nothing has yet been selected for any other line.

To attach a statement for section **B** or **C**, click the **D3-2 Attachment** link at the top of Section B (Figure 20). A single statement may contain all necessary explanations for sections **B** and **C**.

**Figure 20:** If any box is marked “B,” click the **D3-2 Attachment** link to open the **ATT** screen and complete the fields for an attached statement.

## Other Screens

Drake provides numerous screens that are not always needed for completing Form 1041. These screens are accessible through the **Assets/Sales** tab, the **Credits** tab, and the **Other Forms** tab. Most of them work in the 1041 program just as they do in the 1040 program. Information on these screens and forms is available in the *Drake Software User’s Manual: Tax Year 2014*.

The following sections provide further information on these screens.

### Assets/Sales

Most screens accessible from the **Assets/Sales** tab are similar to those in the 1040 package.

#### Available Assets/Sales Screens

Many of the **Assets/Sales** screens have been covered elsewhere in this manual. Listed below are those that are available but are *not* covered in this document.

**Table 2:** Other Screens Available From **Assets/Sales** Tab

Screen	Schedule or Form
4684	Form 4684, Casualties and Thefts
6198	Form 6198, At-Risk Limitations
6252	Form 6252, Installment Sale Income
6781	Form 6781, Gains and Losses From Section 1256 Contracts and Straddles
8594	Form 8594, Asset Acquisition Statement Under Section 1060
8824	Form 8824, Like-Kind Exchanges

Get more information on these screens by clicking **Screen Help**, by pressing F1 in the various fields of the screens, or by reading about the equivalent screens in the *Drake Software User's Manual: Tax Year 2014*.

**Depreciation** Use the **Depreciation Detail (4562)** screen to enter depreciable assets for Schedule C, Schedule E, or Schedule F. For more information on depreciation and the **4562** screen (Form 4562, Depreciation and Amortization) in Drake, see the *Drake Software User's Manual: Tax Year 2014*.

**NOTE** IRS rules do not allow section 179 depreciation in 1041 returns.

## Credits

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

### Available Credit Screens

As is the case on the **Assets/Sales** tab, most of the screens available through the **Credits** tab are identical to their counterparts in 1040 returns. Many of the **Credits** screens have been covered elsewhere in this manual. Listed in Table 3 are those **Credits** screens that are available but are not covered in this document

**Table 3:** Other Screens Available From **Credits** Tab

Screen	Form and Credit
3468	Form 3468, Investment Credit
5884	Form 5884, Work Opportunity Credit
6478	Form 6478, Biofuel Producer Credit
6765	Form 6765, Credit for Increasing Research Activities
CR	Form 8582-CR, Passive Activity Credit Limitations
8586	Form 8586, Low Income Housing Credit
8609	Form 8609, Low-Income Housing Credit Allocation and Certification
8820	Form 8820, Orphan Drug Credit
8826	Form 8826, Disabled Access Credit
8834	Form 8834, Qualified Plug-in Electric and Electric Vehicle Credit. Form 8834, has expired for the current year and has not been released for 2013. The credit will apply only if there is a passive carryover from a prior year.
8835	Form 8835, Renewable Electricity, Refined Coal, & Indian Coal Production Credit
8844	Form 8844, Empowerment Zone and Renewal Community Employment Credit
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**Table 3:** Other Screens Available From **Credits** Tab

Screen	Form and Credit
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8864	Form 8864, Biodiesel Fuels Credit
8874	Form 8874, New Markets Credit
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8896	Form 8896, Low Sulfur Diesel Fuel Production Credit
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## Other Screens

Many screens from the **Other Forms** tab have been covered elsewhere in this manual. Listed in Table 4 on page 39 are those **Other Forms** tab screens that are available but are not covered in this document. For more information on using those screens listed below that have equivalents in the 1040 package, see the *Drake Software User's Manual: Tax Year 2014*. You can also use the screen help and field-level helps for individual screens.

**Table 4:** Other Screens Available From **Other Forms** Tab

Screen	Screen or Form
ESBT	Electing Small Business Trusts
SS4	Application for Employer Identification Number
56	Form 56, Notice Concerning Fiduciary Relationship
1045	Form 1045, Application for Tentative Refund
2848	Form 2848, Power of Attorney and Declaration of Representative
4970	Form 4970, Tax on Accumulated Distribution of Trusts
8082	Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)

**Table 4:** Other Screens Available From **Other Forms** Tab

Screen	Screen or Form
8275	Form 8275, Disclosure Statement
8582	Passive Activity Loss Limitations
8821	Form 8821, Tax Information Authorization
8822	Form 8822, Change of Address
8829	Form 8829, Expenses for Business Use of Your Home
8855	Form 8855, Election to Treat a Qualified Revocable Trust as Part of an Estate
8886	Form 8886, Reportable Transaction Disclosure Statement
8903	Form 8903, Domestic Production Activities Deduction
8948	Explanation for Not Filing Electronically
NOL	Schedules A & B of Form 1045

### Miscellaneous Tab

Many screens from the **Miscellaneous** tab have been covered elsewhere in this manual. Listed in Table 5 on page 40 are those **Miscellaneous** tab screens that are available but are not covered in this document. For more information on using those screens listed below that have equivalents in the 1040 package, see the *Drake Software User's Manual: Tax Year 2014*. You can also use the screen help and field-level helps for individual screens.

**Table 5:** Other Screens Available From **Miscellaneous** Tab

Screen	Screen or Form
ADMN	Tracking return preparation and banking data
BILL	Client Bill - Adjustments and Payments
COMP	Compare current-year tax return with two prior tax years.
ESUM	Provides an e-file summary of the return.
MISC	Miscellaneous Screen — <b>Final Year Override</b> field (See field help before making an entry in this field.)
PREP	Preparer Information Overrides

### Miscellaneous Codes for Tracking

At the right side of screen **1** are two **Misc code** fields that can be used for tracking purposes. For more information on using these miscellaneous codes, see “Customized Drop Lists” in Chapter 2: “Installation & Setup” of *Drake Software User's Manual: Tax Year 2014*.

## Form 1041-A

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

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

**NOTE** If filing an extension for Form 1041-A, mark the **Form 1041-A Type of return to be filed** check box on screen **8868**.

## Form 5227

Form 5227, Split-Interest Trust Information Return, is used to report the financial activities of a split-interest trust, provide certain information regarding charitable deductions and distributions of or from a split-interest trust, and determine if the trust is treated (for Chapter 42 excise tax purposes) as a private foundation and subject to certain excise taxes under Chapter 42. Schedule A of the form is used to report accumulations of income for charitable remainder trusts, distributions to non-charitable beneficiaries, and information about donors and assets contributed during the year. Form 5227 must be paper-filed.

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

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

## Signing the Return

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

## Form 8879-F

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

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

**Setup > ERO** must still be completed for e-file. See the IRS instructions for further details on signature requirements.

## NOTES

If the return is not prepared by a paid preparer, go to screen **1** and select **None** for **Firm #** and **Preparer #**. Use Form 8453-F to file the return electronically.

To use an alternative electronic signature, see the field-level help for the **Alternative Electronic Signature PIN** text box on the **PRNT** screen (available from the **Miscellaneous** tab).

### e-Signing Form 8879-F

You can take advantage of the new e-Signature feature of Drake Software and use an electronic signature pad to sign—and have your client sign—Form 8879-F.

For details, see Chapter 6, “Return Results,” of the *Drake Software User’s Manual: Tax Year 2014*.

## Amending a Return

To file an amended Form 1041:

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

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

## NOTE

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

## Filing an Extension

For calendar year estates and trusts, Form 1041 and the K-1 schedules must be filed on or before April 15, 2015. Fiscal year estates and trusts must file Form 1041 by the



15th day of the fourth month following the close of the tax year. When the extension application is submitted, the due date will be changed to the 15th day of the fifth month following the month of the regular due date.

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

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

## State-specific Information

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

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

Screen **2** has fields for the following information:

- Trust information (revocable, irrevocable, testamentary, inter vivos, charitable remainder)
- Method of accounting (cash, accrual, other)
- Additional fiduciary information overrides (state purposes only)

Specific data for state fiduciary/trust returns must be entered manually using screens for the specific state. To access state data entry, select the **States** tab from the **Data Entry Menu**, and then select the desired state for state-specific screens.

## Making Changes on the Fly

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

## Suppress or Force Printing

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

### Items to Print

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

- **Print Form 6198** — Generates Form 6198, At-Risk Limitations, with the return.
- **Print Form 1041-I** — Generates Schedule I, Alternative Minimum Tax – Estates and Trusts, with the return. (This option overrides the **Print Form 6251 only when required** option in **Setup > Options > Form & Schedule Options**.)

- **Print Form 8582** — Generates Form 8582, Passive Activity Loss Limitations, with the return.
- **Print Form 4562** — Generates Form 4562, Depreciation and Amortization, with the return. (This option overrides the **Print Form 4562 only when required** option in **Setup > Options > Form & Schedule Options**.)
- **Print Form 8960** — Generates Form 8960, Net Investment Income Tax - Individuals, Estates, and Trusts.
- **Print next year depreciation listing**— Select this box to generate the next year's depreciation schedule. (This option overrides the **Next-year depreciation schedule** option in **Setup > Options > Form & Schedule Options**.)
- **Print summary** — Select this box to print a diagnostic summary report with the tax return. The summary report lists the forms calculated and provides a brief summary of the return.
- **Print comparison** — Select this box to include a one-page report comparing the client's 2014 return to the 2013 return when the return is generated.
- **Print K-1 codes (Schedule K-1, page 2)** — Schedule K-1 consists of two pages: page 1 is the form itself, and page 2 consists of K-1 code explanations. By default, Drake generates only the first page of the K-1. To have page 2 generated with the return, select this box.
- **Alternative Electronic Signature PIN** — The preparer's alternative PIN entered here must match the one created in **Setup > Preparers**.

**NOTE** Code sheets are not displayed in View/Print mode. When the return is printed, the code sheets are printed after the Schedule K-1s.

### Items to Suppress

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

- **Proformas/organizers** — Choose not to generate a proforma/organizer for this client next year.
- **K-1 schedules and letters** — Choose to not generate these items with the return.
- **Grantor Trust Letter** — Choose not to generate this letter for a grantor trust.
- **State short form** — Choose to suppress the state short form. (State return will be generated on long form.)

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

## Overriding Other Printing Options

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

- Envelope cover sheet with taxpayer address
- Envelope cover sheet with IRS address
- Envelope cover sheet with state taxing authority address
- Envelope cover sheet with city taxing authority address

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

## NOTE

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

## Listing a Different Firm, Preparer, or ERO on a Return

By default, the program generates the information shown in Table 6 on the return.

**Table 6:** Firm, Preparer, and ERO Data that Can Be Changed on the Fly

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

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

You can also use the **PREP** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**) to override the following information:

- Federal preparer information (if the firm is not set up in Firm Setup)
- State preparer information (if the firm is not set up in Firm Setup)

## Electronic Filing

Steps for e-filing a 1041 are same as for a 1040. See the *Drake Software User's Manual: Tax Year 2014* for details. For information on signing the return electronically, see "Signing the Return" on page 41.

## NOTE

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

## Electronic Funds Withdrawal (Direct Debit)

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

### Program Defaults and Overrides

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

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

**Payment date** — Use the **Requested payment date** override fields to request a payment date other than the due date. If the return is e-filed on or before the due date (April 15) of a calendar year, the requested payment date cannot be later than the due date. If the return is transmitted after the due date, the requested payment date cannot be later than the current date.

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

### Required Information

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

The name of the financial institution, the 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** must be entered twice.

### State Balance Due

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

## NOTE

Do not attempt to make payments on state taxes through the **PMT** screen unless the payment is for a Massachusetts, New York, or Texas return, or a Philadelphia (PA) Business Income and Receipts Tax return or a Philadelphia (PA) Net Profits Tax return. Only Massachusetts, New York, and Texas, and Philadelphia, PA, allows direct debit for tax year 2014.

### Foreign Accounts

Due to new banking regulations regarding International ACH transactions (IAT), state taxing agencies are required to handle foreign transactions differently from domestic transactions. For filing season 2014, no states are supporting IATs.

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

For more information on IATs and handling foreign accounts in the program, see the Screen Help for the **PMT** screen.

**Common  
Error Codes**

If the following IRS error reject code is generated when you e-filing a 1041 return, you must contact the IRS for further information. The e-file help desk number is (866) 255-0654.

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



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