



SUPPLEMENT: PARTNERSHIPS (1065)

Drake Software User's Manual

Tax Year 2014

**Supplement: Partnerships
(1065)**

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Table of Contents

What's New in Drake for Partnership Returns	1
Schedule K	1
Schedule L and M-2	1
Force-Printing Schedule M-3	2
Missing ID Number	2
Form 3115 Change	3
Business Activities Statement	3
New ACA Fields on Form 8941	3
Unlimited Forms 2848	4
Estimated Taxes Screen	4
Safe Harbor Elections	4
Force-Printing Final End-of-Year Totals	4
Rounding Partner	4
Updating a Prior-Year Return in Drake	5
Header Information	5
Name and Address	5
Tax Year	6
Boxes A through J	6
Income and Deductions	7
Gross Receipts	7
Cost of Goods Sold (Form 1125-A)	7
Ordinary Income (Loss)	8
Net Farm Profit (Loss)	8
Net Gain (Loss)	9
Other Income (Loss)	9
Compensation and Wages	9
Guaranteed Payments and Partner Health Insurance	10
Repairs and Maintenance	10
Bad Debts	11
Rents	11
Taxes and Licenses	11
Interest	11
Depreciation	12
Depletion	13
Retirement Plans	14
Employee Benefit Plans	14
Other Deductions	14
Filing an Extension	15
Signing the Return	15
Amending a Return	16
TEFRA and Filing Eligibility	16
Additional Information	17

Schedule B	17
State-specific Information	18
Other Information and Overrides	20
Schedule K (Partners' Distributive Share Items)	21
Schedule K-1 for 1065 (Partner Information)	21
Ownership Changes	22
IRS K-1 Codes	22
Returns with Numerous Partners	22
Partner Overrides	23
Foreign Addresses	23
K-1 Export	23
Supplemental Information	24
Item M	24
Partner's Adjusted Basis Worksheet	25
Special Allocations	25
Domestic Production Activities Deduction	27
K-1 Cover Letters	28
Schedule L (Balance Sheets Per Books)	29
Flow of Information	29
The SCH2 Screen	29
Autobalance	31
Schedules M-1, M-3 (Reconciliation of Income)	31
Schedule M-1	31
Schedule M-3	32
Schedule M-2 (Analysis of Partners' Capital Accounts)	33
Rental Activities	33
Line 14, Depreciation	34
Line 15, Other Expenses (list)	34
Viewing Rental Activity Information	35
Self-Employment Income	36
Credits and Adjustments	36
Elections	37
Making an Election in Drake	37
Election Statements	38
Safe Harbor Elections	38
Making Changes on the Fly	39
Suppressing/Forcing Documents	39
Overriding Other Setup Options	40
Electronic Filing	41
Additional Return Types	41
Common Error Codes	43
Binary Attachments	43
The PDF Attachment Process	43
Importing Trial Balance Information	46

Preparing to Use Trial Balance Import.....	46
Preparing Financial Data for Import.....	47
Saving a File.....	51
Importing Data into a Return.....	51
Special Conditions.....	52
Form 3115, Application for Change in Accounting Method.....	55
Accessing Screens for Changing Accounting Method.....	55
Form 3115 Screens.....	56
Schedule E.....	64
Attachments.....	65
Appendix A: Trial Balance Import.....	A-1
Index.....	vii

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Partnerships (1065)

The basics of data entry for a partnership (1065) 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 package. See the *Drake Software User's Manual: Tax Year 2014* for the basics of using the program.

What's New in Drake for Partnership Returns

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 new regulations for 2014, see the IRS instructions for Form 1065.

Schedule K

Business Activity Statements have been added to allow the breakdown of Schedule K items by multiple business activities. A K-1 statement by business activity will also be provided.

Schedule L and M-2

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

Schedule L - Balance Sheet

Entries on lines 6, 8, 13, 17, and 20 require use of the SCH2 screen for details. The amounts from that screen flow to the appropriate lines when the return is calculated.

The partners' capital account can be automatic; however, it is also used as the balancing account. If an amount is entered, it is compared with the computed amount. If no amount is entered, no checking is done, and the balance sheet is forced to balance by the program.

Auto-balance can be turned off from the PRINT screen.

☐ Force-print Schedule L and M-1

☒ Force-print final end of year

		Beginning of Year		BOY Totals	End of Year		EOY Totals
		(a)	(b)		(c)	(d)	
1	Cash.....		54545	54545		4321	4321
2a	Trade notes and accounts received.....				12345		12345
2b	Less allowance for bad debts.....						12345
3	Inventories.....			54545			
4	U.S. Government securities.....						
5	Tax-exempt securities.....						
6	Other current assets.....			55555			
7a	Loans to partners.....						

Note: Red circles and arrows in the original image highlight the 'Force-print final end of year' checkbox (labeled 2) and the 'BOY Totals' and 'EOY Totals' columns (labeled 1). The 'SCH2 screen' link is also visible under lines 6 and 7a.

Figure 1: Beginning- and End-of-Year totals displayed on L screen (#1); force printing end-of-year totals (#2)

Note that the totals from the balance sheet's subsidiary schedule (**SCH2 screen**) also appear in the **BOY Totals** and **EOY Totals** columns of the L screen.

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

TIP

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

Force-Printing Schedule M-3

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

See "Schedules M-1, M-3 (Reconciliation of Income)" on page 31 for more details on these schedules.

Missing ID Number

In the past, if the partnership received a Schedule K-1 from a partnership and the partnership did not have an ID number—for instance, if the partnership was foreign and did not have an EIN—then you typed FOREIGNUS into the **Partnership EIN** field of the **K1P** screen (Figure 2 on page 3). If the partnership had applied for an SSN or EIN but had not yet received an ID number, then you would have typed APPLD FOR in the **Partnership EIN** field.

Now, to help avoid a data-entry error that might lead to an IRS reject, Drake will auto-fill the **Partnership EIN** field. Type F into the **Partnership EIN** field and FOREIGNUS is automatically entered, or type A and APPLD FOR appears.

Schedule K-1 from 1065

Enter data on this screen if the partnership received a K-1 from **another partnership**.

Partnership EIN..... **FO-REIGNUS** Tax shelter registration #.....

Partnership name..... Partners in Grime

Address..... 1234 Main Street

City, State, ZIP..... Franklin NC 28734

Figure 2: Drake autofills the **Partnership EIN** field with “FOREIGNUS” or “APPLD FOR”

Form 3115 Change

Form 3115, Application for Change in Accounting Method, is now eligible for e-file. See “Form 3115, Application for Change in Accounting Method” on page 55 for details of using the Drake screens to file this form.

Business Activities Statement

Business Activities Statement (screen **BAS**) has been added to the 1065 package that will allow you to break down a partnership's Schedule K items by business activity. The amounts and totals from the **BAS** screen do not flow anywhere in the respective business returns but do provide statements you can use as a reference when transferring these amounts into the partner's 1040 return. A K-1 statement by business activity is also provided (Figure 3).

Business Activity Statement						2014
(Keep for your records)						
Partnership Name Partners In Grime						EIN 41-4141414
Partner Name William Carter						SSEI/EIN APPLDFOR
ACTIVITY NAME(S) <div style="border: 1px solid blue; border-radius: 15px; padding: 5px; display: inline-block;"> Activity 1 - Restaurant Activity 2 - Gift Shop Activity 3 - Museum </div>						
LINE REFERENCES	1	2	3	Unallocated	Sch K1 Total	
1. Ordinary Business Income (Loss)	617	222	389	(4,138)	(2,910)	
2. Net Rental Real Estate Income (Loss)	See K1_8825					

Figure 3: Business Activities Statement in the 1065 package

The statement is listed in View mode as WK_BAS. The worksheets for the individual partner's Schedules K-1 are listed as K1 BAS.

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, determines if employer provided health care coverage for its employees as mandated by the Affordable Care Act, and determines if the business is eligible to use Form 8941.

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.

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,” beginning on page 183 of the *Drake Software User's Manual: Tax Year 2014*.

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 38 for more.

Force-Printing Final End-of-Year Totals

Normally, if you mark **Final** on screen **1**, indicating that this as a final-year return for a partnership or corporation, Drake “zeros out” the **EOY Totals** column of Schedule L. Mark the check box on screen **L** (see item #2 in Figure 1 on page 2) to display those totals in the **EOY Totals** column.

Rounding Partner

Drake gives you a way to select a rounding partner. By marking a check box on screen **K1** (Figure 4 on page 5), 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.

A screenshot of a software form for entering partner information. The form includes fields for a partner ID (40-0002222), name (William Carter), address (1234 Main Street, Franklin, NC 28734), and a phone number (828-524-1234). A checkbox labeled 'Rounding Partner' is checked and circled in red. There is also a 'Resident state' dropdown menu set to 'NC' and a '<Click to Access>' button.

Figure 4: Rounding Partner check box

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

Form 8878-A

For electronic payments on extensions, the program now produces Form 8878-A, the IRS e-file Signature Authorization for Form 7004.

Updating a Prior-Year Return in Drake

If you prepared the tax return in Drake last year, you will need to update the return for the current year. A prior-year return can be updated in three ways:

- As 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)

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

Header Information

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

Name and Address

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

Tax Year

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

NOTE

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

For information on filing with a 52-53-week year, see "Electing a 52-53-Week Year (Initial Return)" on page 41.

Fiscal and Calendar Years

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

Short-Year Returns

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

To indicate a short-year return, use the fiscal year date fields on screen **1** to indicate the beginning and ending dates for the current year. (These fields should *not* be used if the entity is filing a full calendar-year return.)

NOTES

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

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

Boxes A through J

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

- Box A — Principal business activity
- Box B — Principal product or service
- Box C — Business code number (Press CTRL+SHIFT+S to search activity codes)
- Box E — Date business started
- Item G — Initial, final, or amended return; address or name change; technical termination

NOTE

A technical termination occurs when there has been a sale or exchange of 50% or more of the interests in partnership capital and profits within a 12-month period. On screen **1** in Drake, mark the **Technical termination** box and either **Initial Return** or **Final Return** as applicable.

- Item H — Accounting method (Select **Cash**, **Accrual**, or **Other**; if **Other**, enter a description of the method used.)
- Item I — Number of K-1 forms attached (Completed automatically based on the number of **K1** screens filled out. Use screen **1** to override this number.)

Income and Deductions

Enter income and deductions on the **INC (Income)** and **DED (Deductions)** screens. **INC** screen amounts flow to Form 1065, page 1, lines 1a to 7. (Also see “Other Income (Loss)” on page 9.) **DED** screen amounts flow to Form 1065, page 1, lines 9 through 20. “Other income” and “Other deductions” data is shown on attached statement worksheets in View mode of the return.

Schedule K Items

Commonly used fields from Schedule K (including fields for income, dividends, charitable contributions, and distributions) are provided at the bottom of the **INC** screen (Figure 5).

Form 1065, Schedule K - Most Common Items

Listed below are the most common items used on the Schedule K. For the complete list of Schedule K items, see the K screens. Amounts entered below do not need to be re-entered on the K screens.

5	Interest income.....	5 +/-	<input type="text"/>
6a	Ordinary dividends.....	6a	<input type="text"/>
6b	Qualified dividends.....	6b	<input type="text"/>
13a	Contributions (50% ONLY).....	13a	<input type="text"/>
18c	Nondeductible expenses.....	18c	<input type="text"/>
	Penalties and fines.....		<input type="text"/>
19a	Distributions of cash and marketable securities.....	19a	<input type="text"/>

Figure 5: Schedule K fields at the bottom of the **INC** screen

Amounts entered in these fields should not be re-entered on the **K** screens.

NOTE

There is no “Charitable Contributions” line on page 1 of the 1065 return. Charitable contributions belong instead on Schedule K. Enter charitable contributions on either the **INC** screen or screen **K** (but not both).

For information on the Schedule K items at the bottom of the **INC** screen, see “Schedule K (Partners’ Distributive Share Items)” on page 21.

Gross Receipts

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

NOTE

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

Cost of Goods Sold (Form 1125-A)

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

NOTE

On screen **A**, items 9a through 9f are direct-entry fields and follow the format of IRS Form 1125-A. For more information on completing these fields, press F1 or consult the IRS instructions.

Inventory Inventory amounts entered on lines 1 and 7 of screen **A** automatically flow to Schedule L, line 3, "Inventories." Note that the inventory fields on screen **L** (**Schedule L - Balance Sheet - Assets**) are overrides; entries here override inventory data from screen **A**.

Line 5, Other Costs Line 5 of Form 1125-A is designated for any applicable costs not entered on the previous lines. In Drake, two fields on screen **A** are provided for line 5: one for other costs including depreciation and one for other costs excluding depreciation. (Figure 6).

4	Additional section 263A costs.....
5	Other costs - depreciation.....
5	Other costs - excluding depreciation.....
7	Inventory at end of year.....

Figure 6: Other costs and depreciation

In the **Depreciation** field, enter any depreciation that relates to the cost of goods sold (unless the amount is flowing from the **4562 Detail** screen with **COGS** selected from the **For** drop list). Note that this field on screen **A** is an override field; an entry here overrides the calculations from the **4562** screen. Amounts entered in this field automatically adjust the total depreciation that is carried to page 1 of Form 1065. For **Other costs - excluding depreciation**, use a CTRL+W worksheet. The depreciation amount is included on the statement for other costs and should not be included in the **Other Costs** worksheet.

NOTE Line **16b** on the **DED** screen is an adjustment field for depreciation from Form 4562 not entered on screen **A**.

Importing Trial Balance to Sch A If using the trial balance import feature (see "Importing Trial Balance Information" on page 46), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* in data entry. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly. For more on depreciation and trial balance import, see "Depreciation" on page 53.

Ordinary Income (Loss)

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

Net Farm Profit (Loss)

The partnership's net farm profit or loss (line 5 of Form 1065) flows from information entered on screen **F** (**Farm Income and Expense**). Farm profit or loss from other partnerships, estates, or trusts appears on line 4 of the return. To enter this information, from the **INC** screen, click the links to screen **K1P** or screen **K1F** on line 4. Enter the farm profit or loss from other partnerships, estates, or trusts on line 1 of screen **K1P** or line 6 of screen **K1F**.

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

Net Gain (Loss)

The amount on line 6 ("Net gain (loss) from Form 4797, Part II, line 17") of Form 1065 flows from Form 4797. Amounts can also flow from screen **4562**, but only if that screen shows assets sold and property type.)

Other Income (Loss)

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

Amounts from the following screens also flow to line 7:

- **Screen 6478** — Form 6478, Biofuel Producer Credit
- **Screen 8864** — Form 8864, Biodiesel Fuels and Low Sulfur Diesel Fuel Production Credits

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

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

To enter additional sources of income not shown, create a CTRL+W worksheet for the **Other income (itemize)** field on the **INC** screen.

To enter other income (loss) from a partnership, estate, or trust, use the **K1P** or **K1F** screen (click the links on line 4 of the **INC** screen).

Compensation and Wages

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

Guaranteed Payments and Partner Health Insurance

Use the **DED** and **K1** screens to report guaranteed payments and partner health insurance. Note that guaranteed payments and health insurance are entered as separate amounts.

NOTE

If the **DED** screen amounts do not equal the respective totals from the **K1** screens, the program generates a "Guaranteed Payment Mismatch" EF message. The return cannot be e-filed until this EF message is cleared.

Guaranteed Payments

To report guaranteed payments to partners:

- Enter *total* guaranteed payments on the **DED** screen, line 10.
- Enter the guaranteed payments *for each partner* on line 4 of the **Part III: K-1 Direct Entries** section of the partner's **K1** screen (Figure 7).

Part III: K-1 Direct Entries

4	Guaranteed payments - services +/-	
	Guaranteed payments - other.....	
13M	Health insurance.....	
	Health insurance distribution reduction.....	<input type="checkbox"/>

Figure 7: Part III section of screen K1

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

Partner Health Insurance

To report partner health insurance:

- Enter the total deductible in the **Partner's health insurance** field on the **DED** screen, line 10.
- Use screen **K1**, line 13M of the **Part III: K-1 Direct Entries** section, to allocate deductible payments for insurance that constitutes medical care for a partner or a partner's spouse or dependents. (Figure 7)

These amounts flow to Schedule K-1, box 13, and are included in the amount in box 4 of the partner's Schedule K-1. For information on the partnership's contribution to a partner's Health Savings Account (HSA), see Notice 2005-8, 2005-4 I.R.B. 368.

Repairs and Maintenance

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

Bad Debts

Use the **DED** screen to enter the total of all bad debts that became worthless during the 2014 tax year, but only if these debts related to a trade or business activity. Deductible non-business bad debts should be entered as short-term capital losses on screen **8949**.

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

Rents

Use the **DED** screen to enter rent paid on business property used for a trade or business activity. If the partnership rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the partnership, and then complete Part V of the **4562** (screens **8** and **9**).

Taxes and Licenses

Use the **DED** screen to enter tax and license payment data. Amounts entered here flow to the "Taxes and licenses" line of Form 1065. Data is also generated on the ATT_PTL worksheet in View mode of the return.

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

State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen are carried to the tax computation (ATT_TAX) worksheet. The state tax amount carried from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used, and which tax type is selected.

Interest

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

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

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

Self-Charged Interest

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

1. Open the **SCH** screen.
2. In the **Statement number** field, type 03.
3. Assign a title such as “Self-Charged Interest” (no quotation marks needed).
4. Enter the following data, each on a separate line:
 - Partnership name
 - Street address (U.S. only)
 - City (U.S. only)
 - Two-letter state code (U.S. only)
 - ZIP code (U.S. only)
 - EIN
 - “REGULATION SECTION 1.469-7(G) DECLARATION” (no quotation marks needed)

Do not mark the **In-house note** check box at the bottom of the **SCH** screen.

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

NOTE

Using the **SCH** screen for this statement will not prevent the return from being e-filed.

Depreciation

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

Using the DED screen for Direct Entry

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

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

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

IMPORTANT

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

For more information on depreciation and the **4562** screen in Drake, see the *Drake Software User's Manual: Tax Year 2014*.

Line 16, Depreciation

Line 16c of Form 1065 is reserved for depreciation that (1) is from Form 4562 and (2) is not claimed elsewhere. While the program pulls data from the **4562** screen for this

line, it also provides field **16b** (Figure 8 on page 13) specifically for depreciation that is claimed elsewhere.

Figure 8: Depreciation line 16 fields from **DED** screen

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

- **Line 16a** — An entry here is added to the depreciation from the **4562** screens. The amount on line **16a** is *not* reflected on Form 4562. See field-level help for further instructions and information on how this field ties in to the 4562.
- **Line 16b** — Drake recommends using screen **A** (rather than the **DED** screen) to enter depreciation claimed on Form 1125-A. An entry on screen **A** adjusts any entry on line **16b** of the **DED** screen and is calculated into the total deductions on Form 1065. If there is an entry on line **16b** but not screen **A**, only the line **16b** amount is calculated into total deductions.

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

For information on allocating Section 754 depreciation to specific partners, see “Section 754 Allocations” on page 26.

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

Reclassify to Amortization

To reclassify an asset from depreciation to amortization:

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

Depletion

Enter depletion amounts on the **DED** screen. If the corporation claims a deduction for timber depletion, complete and attach Form T, Forest Activities Schedules. (Attach as PDF to e-filed returns. See “The PDF Attachment Process” on page 43.) Do not deduct depletion for oil and gas properties. Depletion should be figured for each partner.

Retirement Plans

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

NOTE

The software reduces the expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs.

IRA for Employees

If the partnership contributes to an IRA for employees, include the contributions in salaries and wages on either the **DED** screen ("Salaries and wages" line) or screen **A** ("Cost of labor" line).

Payments to Partners

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

Employee Benefit Plans

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

Amounts Paid for Medical Care

The line 19 amount should not include amounts paid for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents. For information on entering amounts paid for medical care, see "Guaranteed Payments and Partner Health Insurance" on page 10.

Pub. 541

IRS Pub. 541 states that premiums for health insurance paid by a partnership on behalf of a partner for services as a partner, are treated as guaranteed payments. The partnership can deduct these payments as a business expense, and the partner must include them in gross income. The partnership *cannot* deduct the premiums, however, if the partnership accounts for insurance paid as a reduction in distributions for that partner, go to the **K1** screen for the partner and mark the **Health Insurance distribution reduction** box.

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

Other Deductions

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

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

- Amortization from Form 4562, Depreciation and Amortization

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

Filing an Extension

Calendar year returns are due on April 15, 2014. By filing Form 7004, a partnership can extend the deadline five months to September 15, 2014. Fiscal-year returns are due on the fifteenth day of the fourth month after the end of the fiscal year.

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

- Go to the **7004** screen in Drake (**Other Forms** tab of the **Data Entry Menu**) and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen and select **Prepare a Form 7004 extension**.

Signing the Return

PIN signatures are required for e-filed returns. If e-filing a return, complete all fields on the **PIN** screen. A return cannot be e-filed if the **PIN** screen is not completed, including title and signature (name) of the general partner or LLC member manager.

If the return is prepared by a paid preparer, the preparer must complete the required information and sign the return in the space provided on the **PIN** screen. If it is prepared by a partner or an employee of the partnership, select **NONE** in the **Firm #** and **Preparer #** drop lists on screen **1**.

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

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

NOTE

Setup > ERO must still be completed in Drake for e-file. For information on how to complete this setup window, see *Drake Software User's Manual: Tax Year 2014*. See the IRS instructions for further details on signature requirements.

Missing PIN Information

If you receive an EF message stating, "Missing Information on the PIN screen," check the **Title** and **Signature** (name) fields the **PIN** screen for the partner signing the return. All applicable fields must be completed. (Phone number and e-mail address are not required.)

**Form
8879-PE**

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

For information on using an electronic signature pad to digitally sign Form 8879-PE, see “Electronic Signatures” in Chapter 6, “Return Results,” of the *Drake Software User’s Manual: Tax Year 2014*.

Amending a Return

CAUTION

When you amend a return in Drake, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see “Archive Manager” in Chapter 6, “Return Results,” of the *Drake Software User’s Manual: Tax Year 2014*.

To file a 1065 return that has been amended:

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

If amending just the K-1s, go to each **K1** screen, select **Amended K1**, and make needed changes.

NOTE

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

TEFRA and Filing Eligibility

A partnership subject to the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) audit rules cannot file an amended Form 1065 to correct a partnership item reported on a previously filed return, but according to these rules, the tax matters partner (TMP) must file a Form 8082 on the partnership’s behalf and request the IRS treat the Form 8082 as a substituted return. A partnership qualifying as a small partnership (see Section 6231(a)(1)(B)) – with 10 or fewer partners at any one time during the year – is exempt from the TEFRA audit rules and can file an amended Form 1065 and corrected K-1s to partners.

Additional Information

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

Schedule B

The program has three screens for entering data for Schedule B, Other Information:

- **Screen B** — For all but lines 3 and 4
- **Screen B1** — For lines 3a and 3b
- **Screen B4** — For lines 4a and 4b

From screen **B**, you can access screens **B1** and **B4** by clicking the applicable hyperlinks or by pressing PAGE DOWN (once for screen **B1**; twice for screen **B4**).

NOTE

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

Ownership

If any foreign or domestic entity (corporation, partnership, or trust) owns, directly or indirectly, an interest of 50% or more in profit, loss, or capital of the partnership, use the **Line 3a** section of screen **B1** to enter the entity's name, EIN, type, country of organization, and maximum percentage owned in profit, loss, or capital.

If an individual or estate owns, directly or indirectly, an interest of 50% or more in profit, loss, or capital of the partnership, use the **Line 3b** section of screen **B1** to enter the individual or estate's name, ID number, country of citizenship, and maximum percentage owned in profit, loss, or capital.

If the partnership owned, directly, an interest of 20% or more, or owned, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation, use the **Line 4a** section of screen **B4** to enter the corporation's name, EIN, country of incorporation, and percentage owned in voting stock.

If the partnership owned, directly, an interest of 20% or more, or owned, directly or indirectly, an interest of 50% or more in profit, loss, or capital in any foreign or domestic partnership or in the beneficial interest of a trust, use the **Line 4b** section of screen **B4** to enter the entity's name, EIN, type, country of organization, and maximum percentage owned in profit, loss, or capital.

Line 6 Requirements

If question 6 on screen **B** is answered **Yes**, Schedules L, M-1, M-2, and Section L of Schedule K-1 are not required and therefore not printed. The four conditions that must be met in order to answer **Yes** to this question are:

1. The partnership's total receipts for the tax year were less than \$250,000.
2. The partnership's total assets at the end of the tax year were less than \$1,000,000.
3. Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.

4. The partnership is not filing and is not required to file Schedule M-3.

TIP

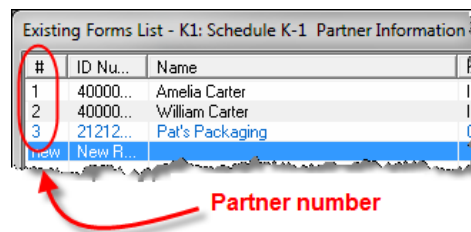
You can force these schedules to be printed from the **PRNT** screen.

Tax Matters Partner

The designated Tax Matters Partner (TMP) is the partner who is available to discuss tax information with the IRS. TMP information is printed at the bottom of page 3 of Form 1065. In Drake, the default Tax Matters Partner is partner #1 (the first partner entered on the **K1** screen).

To designate a different partner, go to screen **B** and complete the **Partner #** field in the **Tax Matters Partner** section at the bottom of the screen. Note that most fields in this section are overrides; there is no need to enter additional information unless the partner's information differs from what is provided on that partner's **K1** screen.

If you don't know the partner number, click **K1** under the **General** tab of the **Data Entry Menu**. An **Existing Forms List** (see Figure 9) displays all partners with their respective numbers.



#	ID Nu...	Name
1	40000...	Amelia Carter
2	40000...	William Carter
3	21212...	Pat's Packaging
New R...		

Figure 9: Schedule K-1, Partner Numbers

State-specific Information

Resident State

The program automatically generates a return for the partnership's resident state. Use screen **2** to enter company 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 company information fields on screen **2** apply to the resident state only.

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

Contact Information

If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2** (accessible from the **States** tab) for the alternative data for registered office, principal place of business, "Books in care of," and general contact information for the partnership's contact person.

Other States

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

Multi-State Apportionment

Enter sales, payroll, and property factors on the **APPT Multi-State Apportionment** screen (accessible from the **States** tab or by entering APPT in the selector field and pressing ENTER). This screen (Figure 10) provides one central location for entering all state apportionment information instead of having to open each needed state's screen.

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

The individual state apportionment screens will continue to be available in Drake14 but will be used to override data entered on the **APPT** screen.

Figure 10: APPT (Multi-State Apportionment) screen

NOTE

Mark the **Zero Apportionment** check box (Figure 10) to add a state but not include any apportionment data. This will include the state on the apportionment summary worksheet (SAC-SUM~), available through View mode.

APPT Screens

The **APPT** screen is opened to the **Sales** tab. Links at the top of this screen take you to the **Payroll**, **Property**, and **Additional Property information** tabs for each state selected (Figure 10). These screens and their uses are listed in Table 1.

Table 1: APPT Screens

Screen	Information
Sales	Select state; enter sales, returns and allowance, and other income-related information for each selected state
Payroll	Enter salary, wage, commission, and labor amounts for each selected state

Table 1: APPT Screens

Screen	Information
Property	Enter beginning and ending amounts of common apportionment factors, plus select additional apportionment factors from drop lists
Additional Property	Select additional apportionment factors from drop lists

NOTE

The **Ending** amount entered on the **Property** and **Addition Property** screens in Drake13 became the **Beginning** amount for property on the **APPT** screen when the client's return is updated in Drake14.

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

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

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

Other Information and Overrides

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

Resident State — If the partnership has a mailing address in one state but does business in another, use the **Resident State** drop list to select the state in which the partnership does business.

Drake Codes and Overrides — For information on miscellaneous codes, invoice numbers, and override fields, see the following sections of the *Drake Software User's Manual: Tax Year 2014*:

- "Listing a Different Firm, Preparer, or ERO on a Return," in Chapter 2, "Installation & Setup."
- "Miscellaneous Codes," in Chapter 5, "Return Preparation."

Entity Name Control Override — Use this field only if your client has obtained a Name Control from the IRS.

Schedule K (Partners' Distributive Share Items)

Use the **K** screens to enter data for Schedule K, Partners' Distributive Share Items. For your convenience, the most common Schedule K items can be answered on the **INC** screen. If you enter these amounts there, do not re-enter them on the **K** screens.

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

Two screens are used for Schedule K:

- **Screen 1 of 2** — Income, Deductions, Self-Employment, and Credits
- **Screen 2 of 2** — Foreign Transactions, Alternative Minimum Tax (AMT) Items, and Other Information

Press PAGE DOWN and PAGE UP to navigate from one **K** screen to another.

NOTE The **K** screens should not be confused with the **K1**, **K1G**, or other related screens.

Schedule K-1 for 1065 (Partner Information)

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

In the **Type of Partner** section, line **G**, select the box to describe the partner as either a **General or LLC member-manager** or a **Limited or other LLC member** (default is **General**). On line **H**, select either **Domestic partner** or **Foreign partner** (default is **Domestic**).

From the line **I1** drop list (Figure 11), choose the type of partner (not the type of partnership). If this box is left blank, the program uses the default selection of **Individual**.

If the partner is a retirement plan (IRS, SEP, Keogh, etc.) mark the **I2** check box.

The screenshot shows the 'Type of Partner' section of a software interface. It includes checkboxes for 'General or LLC member-manager' (checked), 'Limited or other LLC member' (unchecked), 'Domestic partner' (checked), and 'Foreign partner' (unchecked). Line I1 is a drop-down menu labeled 'PARTNER type (not the partnership)' which is circled in red. The drop-down list is open, showing options: INDIVIDUAL (highlighted), IND SMLLC, IND PASSIVE CORPORATION, S CORPORATION, PARTNERSHIP, DISREGARDED, and ESTATE. Line I2 is 'Is this partner a retirement plan?' with an unchecked checkbox. Below this is a section for 'J. Partner's %' with a 'Before Change' label and input fields for Profit, Loss, and Capital.

Figure 11: K-1 Partner Type

Ownership Changes

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

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

NOTE

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

Printed Data

A Summary of Change in Ownership worksheet (WK_POWN) is generated listing all partners and the ownership percentages and changes.

IRS K-1 Codes

A code sheet can follow the printing of each Form 1065 K-1 to help the taxpayer interpret the various codes used on Schedule K-1. To have this sheet printed with all K-1 schedules, from the **Home** window of Drake, go to **Setup > Options > Form & Schedule Options** tab and mark the **Print Page 2 of Schedule K-1** check box. The codes can also be printed on a return-by-return basis by marking the applicable box on the **PRNT** screen. The code sheet is also available from **Tools > Blank Forms**.

NOTE

Code sheets are not displayed in View mode. If the 1065 K-1 is selected for printing, it is printed first, followed by the statements pertaining to that 1065 K-1. These are followed by the code sheets.

The Schedule K-1 may include asterisks with letter codes.

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

Returns with Numerous Partners

For returns with a large number of partners, you have the option of deactivating calculation and printing of the K-1s while working on Form 1065. This option, which eases

the process of reconciling the 1065, is available by going to the **PRNT** screen and marking the applicable box under **K-1 Items to Suppress**.

NOTE After completing the K-1 entries for all partners, be sure to reactivate the calculation and printing of the K-1 from the **PRNT** screen.

Partner Overrides

To override calculated amounts for the partners, you can either make changes on each **K1** screen or go to the **SA** screen for partner special allocations and make all changes there. For more information, see “Special Allocations” on page 25.

Foreign Addresses

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

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

K-1 Export

Take the following steps to export a Schedule K-1 to a 1040 return.

1. Ensure that K-1 data is entered in the 1065 and that the 1040 return has been created. (The **K1P** screen in the 1040 does not have to be created beforehand.)
2. In the 1065 return, go to View mode.
3. Click **K1 Export** in the View mode toolbar. A list of SSNs that *cannot* be exported appears, if applicable. Click **Next**.
4. The **Export K1s** dialog box (Figure 12) lists all client SSNs that can be exported. (To prevent an item in this list from being exported, remove the check mark to the left of it.)

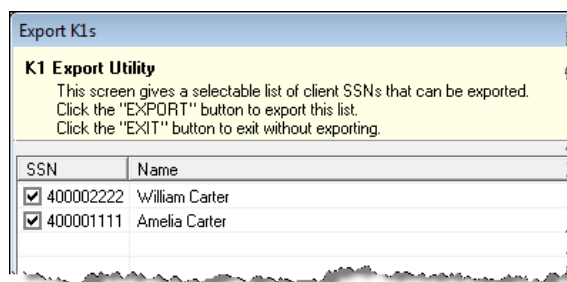


Figure 12: SSNs ready to be exported

5. Click **Export**. The K-1 data will now appear on the partner's 1040 tax return.

NOTE

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

Supplemental Information

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

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

To add supplemental information “globally” (to all K-1s) enter the information in the **Supplemental Information** block of screen **K1G**.

To add supplemental information to an individual K-1, open a partner's **K1** screen and click the **Supplemental Info** link at the top of the screen. In the **Supplemental Information** pane (Figure 13), enter information pertinent to the partner.

Figure 13: In this example, the information entered on the **K1P** screen appears on only the shown Schedule K-1.

Item M

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

1. On the **PRNT** screen, select **Yes** in the **Item M on Schedule K-1** section.
2. On screen **K1G**, select **K1M - Built in Gain Loss Statement** from the drop list, and type any supplemental information needed in the text box below.

If the answer is “Yes” for *some partners* but not others, use the individual partners' **Item M** screens to report the supplemental information. The **Item M** screen is accessed by clicking the **8805/Item M** tab at the top of any partner's **K1** screen. The

supplemental information should list each property the partner contributed, the date the property was contributed, and the amount of the property's built-in gain or loss.

Partner's Adjusted Basis Worksheet

NOTE

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

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

The **Basis Wks** screen is accessible by clicking the **Basis Wks** tab at the top of the **K1** screen for a partner. (Access the **K1** screen from the **Data Entry Menu**.)

NOTE

The Basis Worksheet is printed only when the option is selected on the **PRNT** screen.

Increases and Decreases to Basis

Increases to basis can include cash contributed, taxable income of partnership (including capital gains), tax-exempt income of partnership, and partner's adjusted basis of property transferred to a partnership.

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

Annual Update of Partner Information

When the program is updated to the next tax year, the end-of-year basis and liability amounts are automatically updated to the beginning of the year. Any loss or deduction carryover is updated to the beginning of the year and its character (ordinary loss, section 179 expense, charitable contributions, etc.) maintained.

NOTE

If a **K1** screen is marked as final, none of the related screens for that partner is updated for the next year.

Special Allocations

Use the **SA** screen (see Figure 14 on page 27) for partner special allocations to allocate liability, capital, and K-1 Part III (Income, Deductions, Credits, and Other Items) amounts to individual partners without having to enter the information into each K-1 separately. Amounts can be entered as dollar amounts or percentages. Calculations from the **SA** screen flow to the appropriate fields of each individual K-1.

To enter partner special allocations:

1. Open the **SA** screen, accessible from the **General** tab of the **Data Entry Menu**.
2. Make a selection from the **Allocation type** drop list at the top of the screen
3. Select a partner from the **Partner's ID Number and Name** drop list and enter the allocation figure in the **Allocation Percentage or Amount** field to the right of it.

Repeat these steps for all involved partners. To enter data for more than one allocation type, press PAGE DOWN to access a new **SA** screen.

A change to the **SA** screen allows you to enter a partner's allocation based on a percentage only. You now need list only the partners that are getting an allocation, not every partner in the partnership, regardless of allocation.

See "Grid Data Entry," following, for details of an easy way to enter amounts on the **K-1** screens.

There is no limit to the number of partners than can be entered. If there are more than 10 partners for whom you must enter special allocations, or an allocation type that must be allocated to more than 10 partners, press PAGE DOWN for a new **SA** screen.

Grid Data Entry

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

First, initiate grid data entry:

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

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

1. Select a partner and click in one of the fields where you wish to enter an amount.
2. Type in an amount for that partner for that column.
3. Scroll across to see more columns and make any entries needed.
4. Press the DOWN ARROW to make entries for other partners.
5. To open a partner's **K1** screen and make any other entries, click **Item Detail**.
6. To return to the grid, close the partner's K1 screen.

You can arrange the grid by ID number, by partner's name, or by the amounts in the columns of the grid by clicking the column headers.

Section 754 Allocations

To allocate section 754 depreciation among specific partners:

1. Indicate an amount of section 754 depreciation using either (but not both) of the following methods:
 - On screen **4562**, select **754** from the **For** drop list.

- On screen **K**, line 13d, code **W** (“Section 754 depreciation”), enter the amount of section 754 depreciation to be reported to the partners.
2. Allocate the amounts. You can do this using either the **K1** screen or the **SA** screen, but not both.
- **K1 screen** — On line 13, “Other deductions,” select code **W** and allocate the amount of section 754 depreciation for that partner. (For any partner not receiving an amount for section 754 depreciation, the code and a zero (0) must still be entered. A statement will still be produced for that partner.)
 - **SA screen** — Select item **148 (Line 13 - W Other deductions)** from the **Allocation type** drop list (Figure 14).

Partner's ID Number and Name	Allocation Percentage
420000001 Banner, Bruce	50
400001111 Amelia Carter	40
106510651 Pat's Packaging	10

Figure 14: Entering partner allocation information on the SA screen

Domestic Production Activities Deduction

A partnership does not take the deduction for Form 8903, Domestic Production Activities Deduction. Instead, the amounts pass through to the partners to report on their individual returns. The partners use the information to calculate their eligibility for the deduction. (For more information, see the IRS Form 8903 instructions.)

If **Print K1_8903 worksheet for each partner** is not selected on screen **8903**, the amounts flow to line 12 of Schedule K-1 (codes **Q** and **R**). If this box *is* selected, the information flows to the K-1_8903, which is referenced on a statement. Code **P** is printed on line 12 of Schedule K-1 to indicate domestic production activities information.

NOTES

Line 11 (“Income limitation”) of the Form 8903 is not applicable for the partnership because the income limitation is calculated at the partner level.

“Form W-2 wages” (on the **8903** screen) refers to the partnership’s W-2 wages paid that are applicable to the Domestic Production Activities Deduction.

K-1 Cover Letters

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

TIP

To prevent the partnership's name and address from being generated in the header of the letter, go to the **K1L** screen (accessible from the **Miscellaneous** tab) and mark the **Do not print entity information** box. (You must first select the **Use letterhead on letters** box at **Setup > Communications Editor > Setup > Letterheads, Margins and Borders** for any entity info to appear as a header.)

Producing Letters for All Returns

To have the K-1 cover letters produced automatically with all applicable returns, go to **Setup > Options > Optional Documents** tab and mark the box labeled **Include K-1 letter with returns**. The signature on the return can be produced in one of three ways:

- By completing the **Tax Matters Partner** fields at the bottom of on screen **B** (Schedule B)
- By completing the partner information on the **PIN** screen (an entry here overrides the Tax Matters Partner information on screen **B**)
- By going to the **K1L** screen and entering the name and title of person signing the letter (an entry here overrides both screen **B** and the **PIN** screen)

NOTE

If nothing is entered in any of the fields referenced above, the program will use the name of the partner on the first K-1 for the signature.

Producing Letters for a Single Return

If no default has been set in **Setup > Options > Optional Documents** tab to produce K-1 cover letters with all returns, you can enter the name and title of the person who will be signing the K-1 cover letters by opening the return, opening screen **K1L**, and entering the name and title at the bottom on the screen.

Editing the K-1 Letter

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

TIP

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

To edit the text of the K-1 letter:

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

4. Click Save.**NOTE**

For an amended return, the K-1 letter automatically refers to the amended K-1. To edit the letter for an amended K-1, select **Open > Partnership > Partnership K1 Amended** and follow steps 3 and 4 of the previous procedure.

Schedule L (Balance Sheets Per Books)

Schedule L is *not* required if:

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

If the partnership meets *all four* of these conditions, go to screen **B** and select **Yes** for line **6**. Because Schedules L, M-1, M-2, and Item L of Schedule K-1 are not required, they will not be generated with the return. (To force these items to be printed, go to the **PRNT** screen and, in the **Items to Print** section, select **Force Schedules L, M-1, M-2, & K-1 Section L**.)

If *any* of the four conditions are *not* met, select **No** for line **6**. Schedules L, M-1, M-2, and Item L of Schedule K-1 are required and will be printed with the return.

Flow of Information

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

Direct entries on screen **L** include beginning- and end-of-year **Cash, Trade notes and accounts received, bad debts, U.S. government securities, tax exempt securities, loans to partners, mortgage/real estate loans, depletable assets, and accumulated depletion**. Schedule L data would come from the partnerships' income statement, balance sheet, and equity and capital accounts.

The SCH2 Screen

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

To create a statement for a line, select the line from the drop list (see Figure 15 on page 30) and enter descriptions and their corresponding amounts. Once the informa-

tion is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen.

NOTES

All line selections are carried to the next-year program when the returns are updated. Screen descriptions are updated, with the year-end amounts carried to the beginning-of-year column.

To access the **SCH2** screen from the **L** screen, click the **SCH2 Screen** hyperlinks on lines **6**, **8**, **13**, **17**, or **20** (or click inside a field and press CTRL+2).

Statements

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

Note that an e-fileable “STATEMENT” is referenced in the return (Figure 15).

The figure consists of two screenshots from the Drake software interface. The top screenshot shows a dialog box titled "Select line number from drop list" with a list of assets. Line 6, "Other Current Assets", is highlighted in blue and marked with a red circle, with the text "(STATEMENT)" to its right. The bottom screenshot shows the Schedule L balance sheet. Line 6, "Other current assets (attach statement)", is highlighted in blue and marked with a red circle, with the value "900" to its right. A red circle is also drawn around the text "Statement #27" in the same line.

Line	Description	Amount
3	Inventories	75,758
4	U.S. government obligations	1
5	Tax-exempt securities	888
6	Other current assets (attach statement)	900
7a	Loans to partners (or persons related to partners)	
b	Mortgage and real estate loans	
8	Other investments (attach statement)	
9a	Buildings and other depreciable assets	119,977
b	Accumulated depreciation	54,248
		65,689

Figure 15: Data entered as “Other Current Assets” from the drop list on screen **SCH2** will be attached as an e-fileable statement and referenced on the applicable line of the return.

SCH2 and Trial Balance

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

When the return is produced, Schedule L reflects the amounts imported from the trial balance worksheets (where direct entry was allowed). For more information, see “SCH2 Detail” on page 53.

Autobalance

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

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

To deactivate this feature for a specific return, go to the **PRNT** screen and select **Turn off autobalance**.

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

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

Schedule M-1

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

Use the **M1** screen to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as permanent or temporary, and as favorable or unfavorable, as described in Table 2:

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

Difference	Description	Examples
Permanent	Book or tax items that will never be reported for book or tax purposes	- Meals & entertainment limitations - Penalties - Tax-exempt interest
Temporary	Items that will be reported for both tax and book purposes, but not during the same tax year	- Depreciation - Gains or losses on the sale of depreciated assets
Favorable	Items that reduce taxable income	- Instances in which tax depreciation amount is greater than book depreciation amount
Unfavorable	Items that increase taxable income	- Disallowed meals & entertainment

Depreciation and Amortization Adjustments

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

1. The amount reported on the Schedule L "Beginning of Year" accumulated depreciation (line 9b, column a) (line 10b is "accumulated depletion"), is subtracted

from the “End of Year” accumulated depreciation (line 9b, column c). This is the “book” depreciation amount.

2. This “book” depreciation amount is compared to the “tax” depreciation amount. (The “tax” depreciation amount is the depreciation amount reported on the return, including any section 179 amounts).
3. The differences between the “book” and “tax” depreciation amounts are carried to the appropriate form and line.
 - If the “book” depreciation amount is greater than the “tax” depreciation amount, the difference is carried to either:
 - Schedule M-1, line 4a
 - Schedule M-3, Part III, line 25, as a negative amount
 - Form 8916-A, line 2(L), as a negative amount for assets selected on the **4562** detail screen for COGS
 - If the “tax” depreciation amount is greater than the “book” depreciation amount, the difference is carried to either:
 - Schedule M-1, line 7a
 - Schedule M-3, Part III, line 25, as a positive amount
 - Form 8916-A, line 2(L), as a positive amount for assets selected on the **4562** detail screen for COGS

Schedule M-3

The **Schedule M-3** section of the **Data Entry Menu** includes direct access to the various **M3** screens (Figure 16).

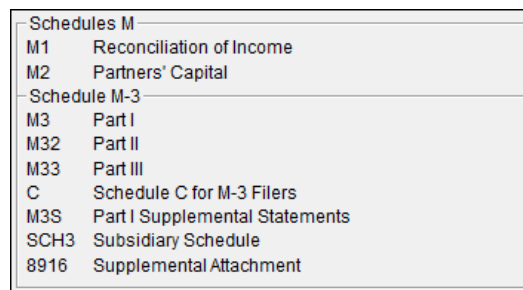


Figure 16: Data Entry Menu for M and M-3 schedules

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

NOTES

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

Some calculated amounts flow automatically to M-3; some data must be manually entered on the **M3** screen. Review all amounts on the M-3.

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

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

The SCH3 Screen

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

To create a statement for a line, select the desired line from the drop list, then enter descriptions and their corresponding amounts. Once the information is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen (make the same selection from the Select line number drop list.)

NOTE

All line selections are carried to the next-year program when the returns are updated.

As with the **SCH2** screen, the type of statement produced by the program depends on the line selected on the **SCH3** screen and the IRS requirements. See "The SCH2 Screen" on page 29 for more information on how to use the **SCH3** screen.

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

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

Drake carries amounts entered in item **L (Analysis of Capital Account)** on the partners' **K1** screen to the Form 1065, Schedule M-2, line 1, "Balance at beginning of year."

Rental Activities

Income and expenses for rental real estate properties appear on Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. To make entries in Drake, use the **8825** screen.

If there are multiple 8825 properties, press PAGE DOWN for a new **8825** screen. Use one screen per rental property. If a return has more than one **8825** screen, the program

reports each property's information on a separate column of Form 8825. Data from all **8825** screens are transmitted to the IRS when the return is e-filed.

NOTE Special steps are required if using the trial balance worksheet for multiple rentals. See "Rental Expenses" on page 54 for more information.

Line 14, Depreciation

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

NOTE For assets placed in service during the year, Form 4562 is required.

Carrying Information to Form 8825

To indicate that the information should be carried to Form 8825, select **8825** from the **For** drop list on screen **4562** (Figure 17). If there are multiple **8825** screens, use the **Multi-form code** box. For information on using the **Multi-form code** box, see the *Drake Software User's Manual: Tax Year 2014*.

The screenshot shows the top of the 'Form 4562' screen. It includes a 'For:' dropdown menu with '8825' selected, a 'Multi-form code:' box with '3' entered, and a date field. To the right, it says '1065, COGS, F, 8825, RENT, 754' and '(1-999 -The default setting (1) is assumed)'. A red circle highlights the '8825' selection in the dropdown menu.

Figure 17: In this example, the program carries the **4562** information to the third **8825** screen created.

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

IMPORTANT

When selecting a multi-form code, note that the code should refer to an **8825 screen**—not the 8825 *form*. For example, data from the third 8825 screen will be generated on the first Form 8825. To associate an asset with that information, you would enter a "3" for the screen (not a "1" for the form) in the **Multi-form code** box. For more information on Form 8825, see "Viewing Rental Activity Information" on page 35.

Line 15, Other Expenses (list)

For rental properties with an "other" expense (line 15), enter the amount of guaranteed payments or meals and entertainment in the appropriate fields (see Figure 18 on page 35). For rental properties with more than one "other" expense, double-click the text box on the **Additional other expenses** line to open a **Detail Worksheet**. Enter a

description in the **Description** field and an amount in the **Amount** field. (The shaded field indicates a worksheet was entered.)

Figure 18: Screen 8825, fields for line 15, “Other” expenses

NOTE

The check box on line 15 indicates health insurance premiums that are part of the guaranteed payments made to the partners are claimed as an expense for rental real estate.

Totals from the worksheet flow to Form 8825, and a statement from each property is printed with the return and is transmitted to the IRS when the return is transmitted.

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

Viewing Rental Activity Information

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

- **8825 Forms** — Form 8825 can contain information for up to eight rental activities. If more than four rental activities are entered, a second page of Form 8825 is generated. If more than eight rental activities are entered, a second Form 8825 is created.

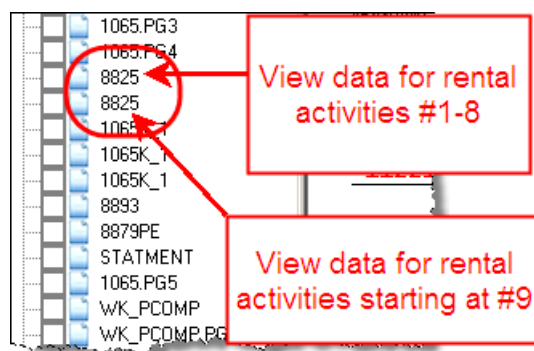


Figure 19: Multiple 8825 pages are created if more than eight rental activities

- **8825 Statements** — Statements are titled **STM 8X**, where X equals A to H for the first Form 8825. (For example, the statements for the first and second **8825** screens would be labeled **STM 8A** and **STM 8B**, respectively.) (See Figure 20 on page 36.)

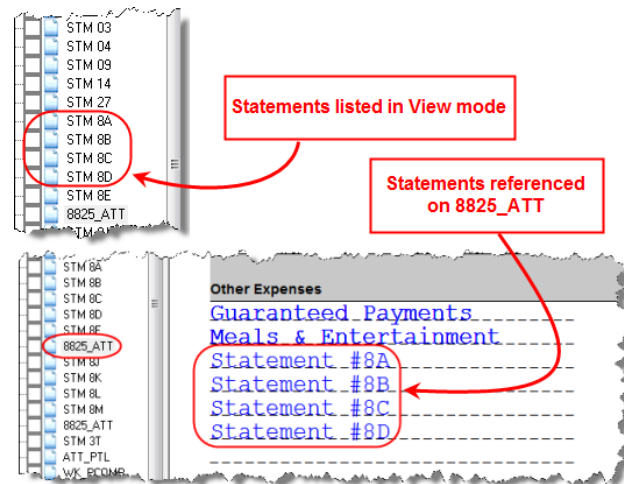


Figure 20: 8825 statements and attachments

Self-Employment Income

If **Mark this box to include in self-employment income** is selected at the top of the **8825** screen, the amounts from the **8825** screen are included in the calculation for line 14a of Schedule K and flow to each K-1. Self-employment calculations are shown on the WK_SE worksheet generated with the return.

Credits and Adjustments

Certain credits require an adjustment to either income or expenses. Drake 2014 carries the required adjustments to the appropriate line of the return and to the M-1.

NOTE No adjustment is carried to the M-3 automatically for 2014.

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

Adjustments are made to other income for the credit amounts for the following credits:

- Form 6478, Biofuel Producer Credit
- Form 8864, Biodiesel Fuels Credit
- Form 8912, Credit to Holders of Tax Credit Bonds (interest income)

Adjustments are made to the appropriate deduction/expenses for the credit amounts for the following credits:

- Form 5884, Work Opportunity Credit
- Form 6765, Credit for Increasing Research Activities
- Form 8820, Orphan Drug Credit
- Form 8845, Indian Employment Credit

- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
- Form 8881, Credit for Small Employer Pension Plan Startup Costs
- Form 8844, Empowerment Zone Employment Credit
- Form 8912, Credit to Holders of Tax Credit Bonds
- Form 8941, Credit for Small Employer Health Insurance Premiums

Elections

The ability to make certain tax elections is included in the Partnership package. Elections are selected from the **Return Elections** section of the **ELEC** screen (Figure 21).

Figure 21: Return Elections portion of ELEC screen

Making an Election in Drake

To indicate that the partnership is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. Make a selection from the **Election** drop list. (Figure 22)

Figure 22: Election drop list

3. Complete all other fields as applicable. Press F1 in any field to learn if that field is required for your selection and the type of information that may be needed. For example, the help text for the **Date or year-ending** field (Figure 23 on page 38) shows that the field is required only for election options 08, 11, 13, 15, and 21, and it explains what, specifically, should be entered for each of these elections.

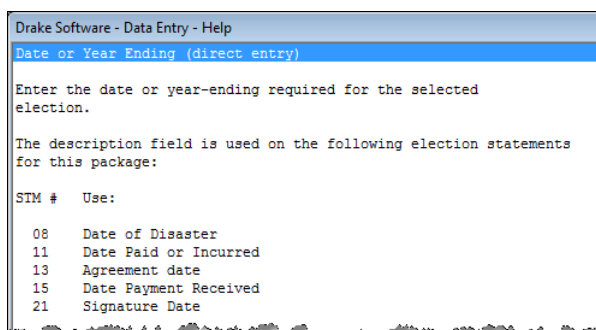


Figure 23: Help text for **Date or year-ending** field on **ELEC** screen

NOTE

If the election option you selected is not listed in the help text for a field, then that field should be left blank. For example, if you chose election 01 (General Election Statement), you would not need to enter anything into the **Date or year-ending** field (help text in Figure 23).

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

Election Statements

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

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

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

Safe Harbor Elections

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 24).

Elections		2014 PG01
Name(s) as shown on return	Your Social Security Number	
William & Amelia Carter	400-00-6665	
<p>I have filed Form 4361 and received approval from the IRS to be excluded from SE tax.</p> <p>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).</p>		

Figure 24: 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.

Making Changes on the Fly

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

Suppressing/Forcing Documents

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

1065 Items The following Form 1065 items can be forced or suppressed from the **PRNT** screen.

- **Force Schedules L, M-1, M-2 & K-1 Section L** — Schedules L, M-1, M-2, and K-1 Section L are not printed unless required. To have these schedules printed with the return, select this box.
- **Print Form 8893, Election of Partnership Level Tax Treatment** — Select this box to generate Form 8893 with the return. (There is no equivalent **8893** screen, but the form is produced. All information for the form is available from other data entry screens.)
- **Print Form 4562** — Form 4562, Depreciation and Amortization is not generated unless applicable. Select this box to force the Form 4562 to be printed. (To force Form 4562 for all returns, go to **Setup > Options > Form & Schedule Options**, and clear the check box labeled **Print Form 4562 only when required**.)
- **Print next-year depreciation listing** — Select this box to print the next year’s depreciation schedule *if the option is not already selected* in **Setup > Options > Form & Schedule Options**.
- **Print inactive return** — By default, the program does not generate a return for a partnership that is inactive. Select this option to override the default for an inactive return.

- **PIN** — To have the preparer's signature appear on the printed copy of return, enter the preparer's PIN here.
- **Items to Suppress** — Select the boxes corresponding to any worksheets, forms, or functions to be suppressed in the return:
 - ATT_PTL (Taxes and Licenses Attachment) or the ATT_PSW reference on page 1
 - Estimated Tax Payment Summary
 - Printing of WK_M2, Partners' Capital Reconciliation Worksheet

K-1 Items

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

- **Select to print:**
 - The partner's adjusted basis worksheet
 - Page 2 of Schedule K-1 (codes)
- **Select to Suppress:**
 - Schedule K-1, K-1 letter, K-1_ATT, or WK_PBAS
 - Schedule K/K-1 Comparison Worksheet or the Capital Account Reconciliation
 - K1_179 for each partner
 - Marking of "Amended K-1" box on printed Schedule K-1
- **Item L on Schedule K-1 (Partner's capital account analysis)** — Select the box (Figure 25) to indicate the calculation method used for the partners' capital account. (If **Other**, indicate the method in the text box; this item is required.)

Figure 25: Items L and M of **PRNT** screen

- **Item M on Schedule K-1** — Select this box to answer item M of Schedule K-1 for *all* partners. To answer it for each individual partner, go to the partners' **K1** screens. See "Item M" on page 24 for more information.

See field help (F1) for more information on the options available.

Overriding Other Setup Options

Filing instructions (federal and state) and envelope coversheets (partnership, IRS, state, city, and K-1s to partners) can be either forced or suppressed from the **PRNT** screen to override the global setting in **Setup**.

In addition, you can select **Turn off autobalance** to disable the autobalance feature (see “Autobalance” on page 31) and select **Prepare a Form 7004 extension** if sending an extension application. (See “Filing an Extension” on page 15.)

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

- Date to print on return
- Due date to print on letter and filing instructions (see note below)
- Amount on Form 1065, page 1, item F (“Total assets”)
- IRS Service Center

NOTE

A default due date for filing is printed on all letters and filing instructions generated with a return. You can override the default by entering an alternate due date in the **Due date to print on letter and filing inst** field.

Much of the information contained in the worksheets is also available from the field-level helps within the program. To access a field-level help, click inside a field and press F1, or right-click in a field and select **Help > Help for this Field**.

Electronic Filing

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

Steps for e-filing Form 1065 are the same as for e-filing Form 1040, with the exception of Bankruptcy return, which must be paper-filed. For detailed instructions on e-filing returns in Drake, see *Drake Software User’s Manual: Tax Year 2014*.

Additional Return Types

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

- Returns for entities using a 52-53-week year
- Short-year returns
- Inactive returns

For information on how to indicate a short-year return in Drake, see “Short-Year Returns” on page 6.

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

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

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

- 1.** In the **If not calendar year** section of screen **1**, enter the **Fiscal year beginning** and **Fiscal year ending** dates. Use MMDDYYYY format, as shown in the example in Figure 26 on page 42.
- 2.** Mark the **52-53-week tax year** box.

Figure 26: In this example, the fiscal year begins 01/01/14 and ends 12/30/15 (the Wednesday closest to the end of December), giving the entity a 53-week year for 2014.

NOTE

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

3. Click the **ELEC Screen** link to open the **Election Options** screen (Figure 27).

Figure 27: Elections for 52-53-week tax years

4. For line 1, select the month in which the 52-53-week year ends for the current fiscal year. (01 = January, 02 = February, etc.)
5. For line 2, select the day of the week the tax year always ends.
6. For line 3, enter the actual date that the tax year ends (the same date entered in the **Fiscal year ending** field on screen 1).

NOTE

Once a 52-53-week year is selected, the entity must use that accounting period every year. To change accounting periods, the entity must submit to the IRS Form 3115, Application for Change in Accounting Method.

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

Inactive Returns

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

1. Go to the **PRNT** screen, accessible from the **General** tab.
2. Under **Items to Print**, mark the **Print inactive return** box.

When the return is calculated, the program displays the words “Inactive Return” on the main form of the return (specifically, to the right of lines 1a and 1b). Zeros are dis-

played where required by the IRS in order for amounts to be properly included in the e-file data.

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

Common Error Codes

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

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

NOTE If a reject associated with the return's "Name Control" occurs, some of your questions can be answered on the IRS's website. For details, go to www.irs.gov/Tax-Professionals/e-File-Providers-&-Partners/Using-the-Correct-Name-Control-in-e-filing-Partnership-Tax>Returns

Binary Attachments

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

You can attach PDF files to federal partnership (1065) returns for e-file. The **PDF Attachments** screen is accessible from the **Data Entry Menu**.

The PDF Attachment Process

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 28)

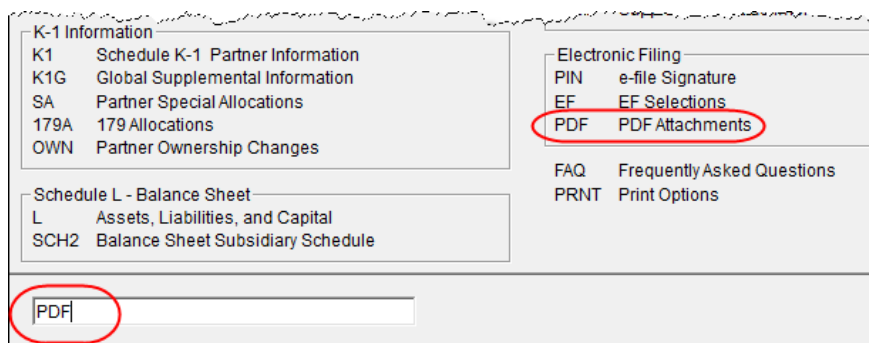


Figure 28: Select **PDF Attachments**, or type PDF into the selector field and press ENTER

2. Fill out the columns on the **PDF Attachments** screen. See Table 3 for examples.

Table 3: PDF Attachment Window Columns

Name of Column	Description	Examples
Reference Source	Name or number of regulation, publication, or form instruction that makes attachments necessary	- IRS Pub xxx-1.4 - Form Instructions for 1065
Description	Description of form or document to be attached	- Title of house on Oak Street - Appraisal of Lot 1234
File name	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 29)
 - An **Attach PDF** button on the toolbar (item #2 in Figure 29)

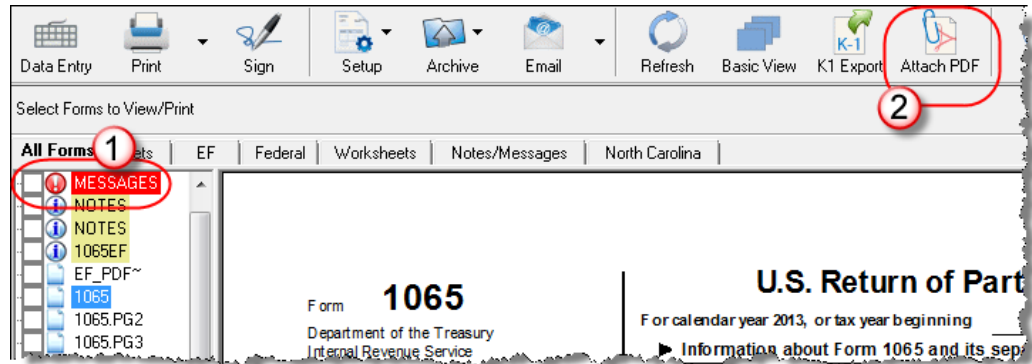


Figure 29: The **MESSAGES** file (1) and the **Attach PDF** button (2)

- 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 30).

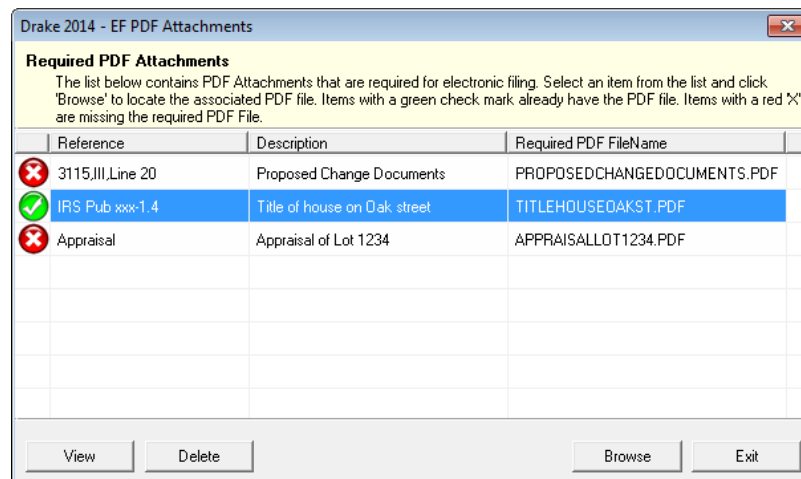


Figure 30: The **EF PDF Attachments** window

- Click the row of a document to attach.
- Click **Browse**.
- 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.

Importing Trial Balance Information

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

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

NOTE

A flow chart of the trial balance importing process is available as Appendix A, Trial Balance Import (pages A-1 to A-2 of this manual).

Preparing to Use Trial Balance Import

The trial balance import function can be used only on returns that were created in Drake 2008 or later. If you haven't already, create a client file in Drake or update an existing client file from the prior year. Like several other functions of the tax software, this feature requires Microsoft Excel (version 2000 or later).

If you haven't already, create a client file in Drake 2014 or update an existing client file from the prior year.

In addition, take these actions to ensure the trial balance import works properly:

- **Enable Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro security is set to "medium." To do so, go to **Tools > Options** in Excel and select the **Security** tab. Click **Macro Security** and select **Medium**, then click **OK**.

NOTE

In Excel 2007 and 2010, click the **Office** button in the upper left and then click the **Excel Options** button at the bottom of the window. (In Excel 2013, click the **File** tab then select **Options** from the menu on the left.) Next, select **Trust Center** from the list at left, then click the **Trust Center Settings** button. Select **Macro Settings** from the list on the left, then choose **Disable all macros with notification**. Click **OK** and then **OK**.

- **Disable Autobalance** — When autobalance is disabled, the program is prevented from automatically adjusting the year-end retained earnings or capital amounts, thus allowing you to see any discrepancies in the balance sheet. To disable autobalance, go to the **PRNT** screen and select **Turn off autobalance** (Figure 31 on page 47).



Other Return Options

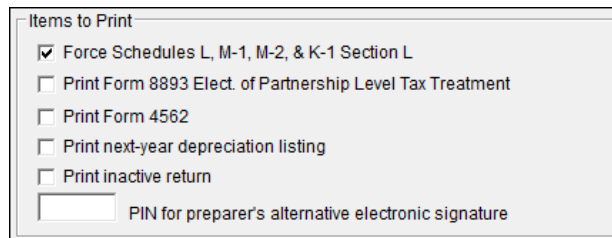
☒ Turn off autobalance

☐ Prepare a Form 7004 extension

Screen 1 must be completed for an extension.

Figure 31: Disable autobalance in **Other Return Options** section of **PRNT** screen

- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the entity does not meet the filing requirement. If this is the case, you need to override the default in order to have the amounts shown on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen and select the **Force Schedules L, M-1, M-2, & K-1 Section L** box.



Items to Print

☒ Force Schedules L, M-1, M-2, & K-1 Section L

☐ Print Form 8893 Elect. of Partnership Level Tax Treatment

☐ Print Form 4562

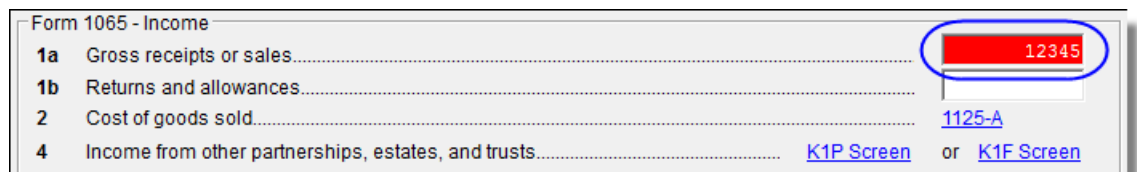
☐ Print next-year depreciation listing

☐ Print inactive return

PIN for preparer's alternative electronic signature

Figure 32: Force Schedule L box for 1065 package

- **Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail (CTRL+W) worksheets that are *not* required. For example, the IRS does not require a detail worksheet for the **Gross receipts** field on the **INC** screen; if a return has a detail worksheet for that field, the trial balance will not import correctly into the return. Detail worksheets are indicated by red shading, as shown in Figure 33.



Form 1065 - Income

1a	Gross receipts or sales.....	12345
1b	Returns and allowances.....	
2	Cost of goods sold.....	1125-A
4	Income from other partnerships, estates, and trusts.....	K1P Screen or K1F Screen

Figure 33: Example of an “unnecessary” detail worksheet

Remove unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 49 for more information on using detail worksheets in the trial balance.

Preparing Financial Data for Import

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

Opening a Template

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

To open a trial balance template for a return:



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

NOTE

In Excel 2007 and 2010, you may see a **Security Warning** message with an **Options** button. Click **Options** to open the **Security Options** dialog box, then select **Enable this content**. Click **OK**. (In Excel 2013, click **Enable Content**.)

The trial balance template is displayed in Microsoft Excel.

Naming Convention

Whenever a new template is opened, the tax software assigns it a default file location and name. Trial balance templates are saved in the TB folder of your Drake13 software. The file name consists of the client name as entered in Drake, plus “TB” for “trial balance,” plus the “.xls” suffix assigned to all Excel files, as shown in Figure 34.

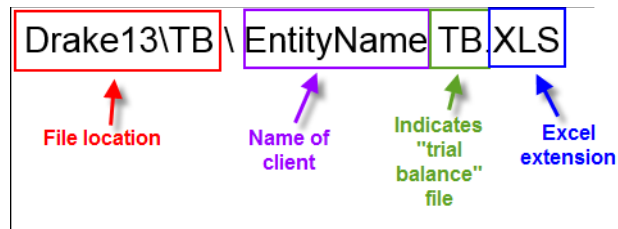


Figure 34: Example of trial balance template file name

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

Template Structure

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

Table 4: Trial Balance Template Columns

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake to which the debit or credit amount is imported
Form, Page, Schedule, and/or line	Location of the amount on the printed return
Other Information	Additional details for preparers; see “Details for Preparers” on page 52.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; and a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (Figure 35; see also Figure 38 on page 50).

Salaries and wages		\$0	
Waste removal		\$0	
Net Income (Loss) = Schedule M-1, line 1		\$301,056	
Totals		\$971,304	\$971,304
	OUT OF BALANCE?		\$0

Figure 35: Schedule M-1 amount (1); totals (2); and indication of balance (3)

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

Entering Financial Data

Most cells in the trial balance worksheet are view-only. In a new template, editable debit and credit cells are indicated by a dollar amount (\$0). When a new trial balance file is opened for a return, all debit and credit amounts are zero (\$0). All data must be entered manually into the template.

NOTE

Some data cannot be imported from the trial balance and must be entered directly into the data entry fields within the program. For more on these categories of data, see "Special Conditions" on page 52.

Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 36).

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

Figure 36: Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 37 on page 50 shows an example of the "Other Income" worksheet.

Statement Required - Other Income		
Form 1065, page 1, line 7		
Line Description	Amount	Import to:
2 Interest income on receivables	\$1,556	INC, line 7
3 Recoveries of bad debts deducted in earlier years	\$1,212	INC, line 7
4 Section 481 adjustments	\$0	INC, line 7
5 State tax refund (cash basis)	\$1,578	INC, line 7
6 Taxable income from insurance proceeds	\$0	INC, line 7
7 Other	\$0	Other Income Detail
Total other income	\$4,346	
<div>Click to return to TB</div>		

Figure 37: Trial balance worksheet for “Other Income”

To return to the previous worksheet, click the **Click to return to TB** button (labeled “1” in Figure 37). Note that a detail tab (the “Other Income” tab in Figure 37) might include one or more detail worksheets (labeled “2” in Figure 37).

NOTE

Do not create detail worksheets in data entry if the trial balance worksheet does not provide an equivalent detail worksheet. Otherwise, the trial balance will not import correctly.

Totals

Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount (Figure 38).

Net Income (Loss) = Schedule M-1, line 1		
	\$144,486	
Totals	\$762,727	\$765,830
	OUT OF BALANCE?	(\$3,103)

Figure 38: Out-of-balance amount is highlighted if columns are out of balance.

In addition to credit and debit totals, the main trial balance worksheet shows the net income (loss) to be calculated for line 1 of Schedule M-1 after all entries and adjustments are made in the software (see Figure 38).

NOTE

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

Saving a File

To save a file, click the **Save** icon or select **File > Save** from the menu bar. To re-name a file when saving, select **File > Save As**. (In Windows 7 and Microsoft Vista, click the **Office** button in the upper left and then click **Save** or **Save As**.) For more information on file names in the trial balance program, see “Naming Convention” on page 48.

Importing Data into a Return

NOTE

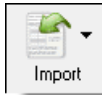
Not all trial balance data can be imported directly into a return. For information on program limitations, see “Special Conditions” on page 52.

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

NOTE

If you are already in the Trial Balance Import tool for the selected return, go to the **Trial Balance Import** window in Drake and start at Step 3 of the following procedure.

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Next**.
4. Enter or select the trial balance file to be imported. Use the **Browse** feature if necessary. By default, each trial balance file is an Excel (.xls) file showing the client name and ending in “TB” for trial balance, as shown in the example in Figure 39. (See “Naming Convention” on page 48.)

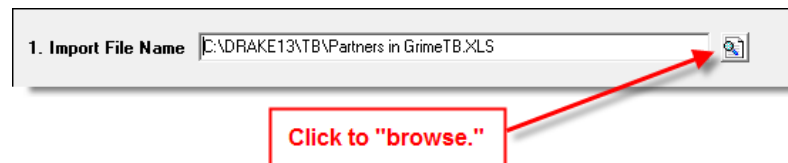


Figure 39: Selected file to import

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

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

Additional Import Options

By default, the program imports the following additional information when importing the trial balance data:

Buildings and other depreciable assets	Accumulated depreciation
Goodwill and other intangible assets	Land
8825/Rent information	Accumulated amortization
COGS depreciation	

Special Conditions

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

Details for Preparers

Most trial balance items go directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 40 go to Schedule L, line 1, column d in the program and are shown on page 5, line 1, column d of the 1065 return.

Debit	Credit	Import to:	Reported on:
\$555,555		L, line 1, col d	1065, page 5, line 1, col d
\$0		L, line 2a, col c	1065, page 5, line 2a, col c

Figure 40: Indication of where an amount will go in Drake and on the return

Not all figures can be imported directly, however, and some amounts are optional. Drake has provided an “Other Information” column in the trial balance worksheet to indicate special conditions and additional information regarding certain rows. Table 5 describes the most common notes in this column.

Table 5: “Other Information” Column Notes

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

All “does not import” notes are accompanied by further instructions in the column to the left of the “Other Information” column, as shown in Figure 41.

SCH2 Detail Typically, a balance sheet subsidiary schedule (**SCH2** detail screen for Schedule L) is required for an item marked “does not import” on the trial balance. (Figure 41)

Account Title	Debit	Credit	Import to:	Reported on:	Other Information
Tax-exempt securities	\$0		L, line 5, col d	1065, page 5, line 5, col d	
Other current assets	\$0		Other current assets detail	SCH2 detail required in Drake	does not import
Loans to partners	\$0		L, line 7a, col d	1065, page 5, line 7a, col d	
Mortgage and real estate loans	\$0		L, line 7b, col d	1065, page 5, line 7b, col d	
Other investments	\$0		Other investments detail	SCH2 detail required in Drake	does not import
Buildings and other depreciable assets	\$0		L, line 9a, col c	1065, page 5, line 9a, col c	optional

Figure 41: SCH2 screen required for “does not import” items

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

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

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

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

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

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

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

NOTE

Enter **8825** and **RENT** depreciation amounts in the detail worksheets for importing purposes, but be aware that the **8825** and **RENT** screens in the program will need to be edited if **4562** detail screens (see Figure 42 on page 54) are used.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Schedule A on the return, and the rental depreciation expense amounts flow directly to the appropriate lines of the **8825** and **RENT** screens, as applicable. Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each

component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry (Figure 42).

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

Figure 42: Enter depreciable asset data on a **4562** detail screen, or enter the total depreciation on the override screens

NOTE

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

Rental Expenses

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

The partnership trial balances include lines for rental income and expenses (Figure 43). Both rental expense items require a trial balance detail worksheet.

Account Title	Debit	Credit	Import to:	Reported on:
Cash	\$555,555		L, line 1, col d	1065, page 5, line 1, col d
Trade and accounts receivable	\$0		L, line 2a, col c	1065, page 5, line 2a, col c
Allowance for doubtful accounts		\$555,555	L, line 2b, col c	1065, page 5, line 2b, col c
Tax-exempt interest		\$0	K, line 18a	Sch K, line 18a, Sch M-1, Line 6
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	\$0		Real Estate Rental Exp	requires detail
Gross other rental income		\$140,000	RENT, line 1	Rent, line 1
Total other rental expenses	\$0		Other Rental Exp	requires detail
Gross royalties		\$0	K, line 7	Schedule K, line 7

Figure 43: Rental expense rows on a trial balance worksheet

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

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

To accommodate entities with multiple rental properties or expenses:

1. Calculate the totals for both types of rental expenses.
2. Enter the income totals on the trial balance sheet and the expense totals on the applicable detail sheets (Figure 43).

3. Ensure that the balance sheet is in balance.
4. Import the trial balance worksheet into the return. The applicable screens in data entry now contain the figures entered on the trial balance worksheet.
5. Compare the M-1, line 1 amount on the trial balance to the M-1, line 1 amount on the calculated return to ensure that they match.

NOTE

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

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

NOTE

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

Form 3115, Application for Change in Accounting Method

Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either an entity's overall accounting method or the accounting treatment of any item.

New for 2014: Form 3115, Application for Change in Accounting Method, is eligible for e-file.

Drake customers can fill out and e-file Forms 3115 and related schedules and attachments for corporation 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 57, 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 first **Other Forms** tab of the **Data Entry Menu** (Figure 44 on page 56).

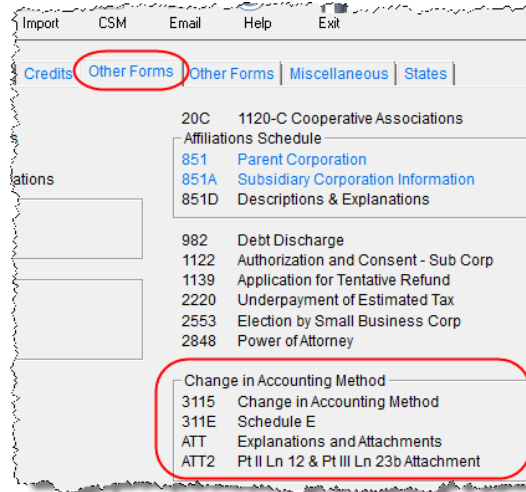


Figure 44: Screens for Form 3115, Application for Change in Accounting Method

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 45 on page 57) 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 45, you can access these **3115** screens by clicking a link at the top of any other **3115** screen.

Figure 45: 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 46). Complete these fields only if you want to override the equivalent information entered on screen **1** or screen **K**.

Figure 46: 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 47 on page 59). 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 47: 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 "Binary Attachments" on page 43.

Multiple Accounting Method Changes

If requesting multiple automatic accounting method change requests on one Form 3115, go to screen **3115** and in the **Part 1—Information for Automatic Change Request** section, make a selection from the drop list on line 1a, then use the drop lists below line 1a (see Figure 48 on page 60) to select account method changes being requested.

Figure 48: Making multiple automatic accounting method change requests

On page 1 of Form 3115, the “Other” check box under “the type of accounting method change being requested” will be marked and a note indicating that multiple automatic change requests (“MULTI AUTO CHNG RQST”) have been made (#1 in Figure 49), and the designated change numbers of the requests appear in the “Description” field of Part I (#2 in Figure 49).

Figure 49: Accounting change requests noted on Form 3115

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 I, 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 (Figure 50 on page 63) to attach a description of the present and proposed methods used to capitalize direct and indirect costs.

Figure 50: 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 51.)
- **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.”

	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	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

Figure 51: 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 52 on page 64). A single statement may contain all necessary explanations for sections **B** and **C**.

Form 3115 - Schedule D, Part III - Method of Cost Allocation

Section A - Allocation and Capitalization Methods

[D3-1 attachment](#) Allocation and capitalization methods detail.

Section B - Direct and Indirect Costs Required To Be Allocated

[D3-2 attachment](#) Explanation for boxes that are not checked. X=Check, B=Blank, No Selection=N/A

	Present	Proposed
1 Direct material.....	X	
2 Direct labor.....	B	
3 Indirect labor.....		
4 Officers' compensation (not including selling activities).....		

Figure 52: 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.

Schedule E

Use screen **311E**, accessible from the **Change in Accounting Method** section of the **Other Forms** tab, to complete Schedule E, Change in Depreciation or Amortization.

NOTE

If changing this method under the automatic change request procedures, see the “List of Automatic Accounting Method Changes” in the IRS Form 3115 instructions.

Screen 311E Multi-form Codes

Unlike the other **3115** screens, screen **311E** contains two multi-form code text boxes:

- **Multi-form code for 3115** — This box is applicable if the return contains more than one Form 3115. Enter the code for the instance of the **3115** screen with which this **311E** screen should be associated.
- **Multi-form code for Sch E** — This box is applicable if the return contains more than one Schedule E. (A separate **311E** screen should be used for each property.) Assign each property a separate code in its **Multi-form code for Sch E**. This code enables you to associate any attachments with the correct Schedule E property. (See “Attachments” on page 65.)

If the return contains more than one Form 3115 and multiple instances of Schedule E, both multi-code fields should contain numbers. Figure 53 shows that the third instance of a Schedule E is to be associated with the second Form 3115 in the return.

Form 3115 - Application for Change in Accounting Method

Schedule E - Change in Depreciation or Amortization

Multi-form code for 3115: 2 Multi-form code for Sch E: 3

Schedule E - Line 4a

Type of property..... Warehouse

Year property was placed in service..... 2010

Property's use in trade or business or income.....

Figure 53: Example of third instance of a Schedule E to be associated with the second instance of a Form 3115.

Completing Schedule E

The **311E** screen consists of four sections:

- **Schedule E - Line 4a** — Enter information on the type of property, the year it was placed in service, and the property's use.

- **Schedule E - Change in Depreciation or Amortization** — This section covers all Schedule E items other than lines 4a and 7. Note that lines **5** and **6** are links to required attachments.
- **Schedule E - Line 7 - Present Method** and **Schedule E - Line 7 - Proposed Method** — For the line 7 sections, enter information on the **Present Method** and **Proposed Method** in the supplied text boxes and choose the applicable convention from the **Applicable Convention** drop list. Options are as follows:
 - **HY** — Half-Year
 - **MM** — Mid-month
 - **MQ** — Mid-quarter
 - **S/L** — Straight line

Attachments

Attached statements are required for many Form 3115 items. Depending on the nature of the attachment, you will attach statements to the form in one of two primary ways:

- **From Data Entry** — The **ATT** screen is the most common screen for attaching statements to Form 3115. The **ATT2** screen is used for Part II, line 12, and Part III, line 23b. (See the “Parts I and III” and “Parts II and IV” sections of this document for more information on completing the **ATT2** screen for these items.)
- **From View mode** — Used for PDF attachments.

ATT Screen Attachments

There are two ways to access the **ATT** screen in Drake:

- **From the Data Entry Menu** — In the **Change in Accounting Method** section of the **Other Forms** tab, click **ATT**.
- **From the line that requires an attachment** — As shown in Figure 54, some lines have attachment links. Click an attachment link to open the **ATT** screen.

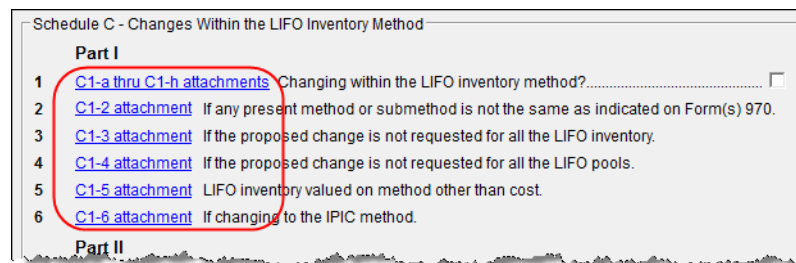


Figure 54: Attachment links from Schedule C (screen A, B, C)

NOTE

Not all lines that require statements include a link to the **ATT** screen. Always check the field-level help (click F1 in a field) to determine if a statement is required. The program produces an EF message if any required statements are missing.

Complete the following **ATT** fields, as applicable, for all **ATT** screen attachments:

- **Multi-form codes** — Use these boxes to associate the attachment with an instance of Form 3115 (if the return contains more than one), a particular Sched-

ule E property (if the return contains more than one Schedule E), or both. (See “Multi-form Codes” on page 56 for more information on multi-form codes.)

- **Schedule** — Select the line of the form or schedule with which the attachment is to be associated. If an item begins with a number, it refers to the part of Form 3115 (for example, **2-4e** refers to Part II, line 4e). If it begins with a letter, it refers to a particular Form 3115 schedule (for example, **C2-b** refers to Schedule C, line 2b; **C2-5** refers to Schedule C, Part 2, line 5).
- **Explanation** — Enter the statement explanation. If the explanation requires more than 900 characters, press PAGE DOWN for a second screen.

NOTE

If the explanation requires more than seven screens, only the first 6,500 characters of the explanation are transmitted with an e-filed Form 3115. There is no character limit for paper-filed returns.

Additional ATT Fields

The **ATT** screen has a separate section, to be used only for Part II, line 10 (“Does the applicant... have pending any request... for a private letter ruling, change in accounting method, or technical advice?”). The IRS requires that the attached statement, in addition to providing an explanation, include the taxpayer’s name and ID number. Enter the name and ID number, and indicate if the ID number is an EIN, in the applicable fields at the bottom of the **ATT** screen (Figure 55).

Figure 55: Special section for entering taxpayer name and ID number for Part II, line 10; located at bottom of the **ATT** screen

NOTE

Once attachments have been filled out, accessing the **ATT** screen will display **Existing Forms List** of all attachments created. Select the attachment (or click the blue **New** line to create a new attachment), and then click **Open**.

PDF Attachments

Some Form 3115 items require the attachment of documents that cannot be created in Drake Software; for example, line 4d of Part II requires written consent from a director. You can, however, attach such a document to the form as a PDF.

Directions for generating and attaching PDF documents can be found on the **PDF** screen in Drake Software. Directions for converting other types of documents into PDF are available by clicking the **Screen Help** button at the top right corner of the **PDF** screen. Copy or print these instructions as desired. Also see “Binary Attachments” on page 43 of this document.

NOTES

Do not enter data on the **PDF** screen itself. If using the directions provided on that screen, skip Step 2, which instructs you to fill out the columns at the bottom of the **PDF** screen.

A PDF document may be attached using any filename. When you attach the document, the program automatically assigns it the filename required by the IRS.

When the return is generated, an “EF Attachments” worksheet is produced. (See Figure 56.) This worksheet shows, in table format, the **Reference** (section of Form 3115), the **Description**, and the IRS-required **Filename** of each required PDF document. This worksheet is displayed as EF_PDF~ in View mode.

EF_PDF~		
(KEEP FOR YOUR RECORDS)		
EF Attachments		
Name of corporation Partners in Grime Cleaning		
Reference	Description	Filename:
3115, III, Line 20	Proposed Change Documents	ProposedChangeDocuments-001.pdf
3115, III, Line 20	Proposed Change Documents	ProposedChangeDocuments-002.pdf
3115, III, line 20	Proposed Change Documents	ProposedChange.PDF
Form 3115	Rev. Proc. 2002-69	RevProc2002-69.PDF

Figure 56: Example of an EF Attachments worksheet

Notices of Missing Attachments

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

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

NOTE

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

Appendix A: Trial Balance Import

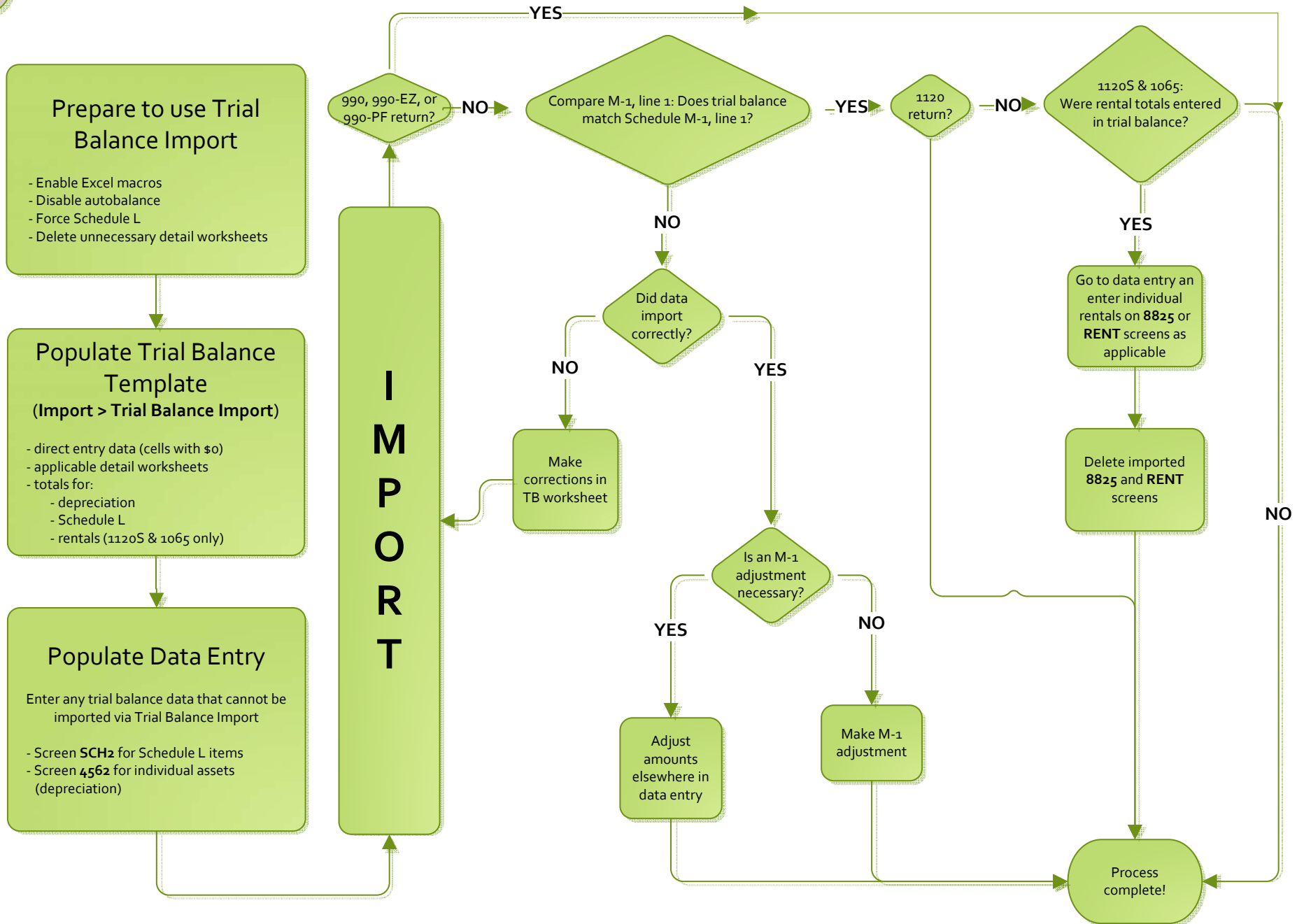
The trial balance import allows data to be imported into a partnership tax return from a trial balance worksheet.

Drake's specially designed trial balance template and importing function has the following benefits:

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

See next page for a flow chart describing the use of the trial balance import.

Trial Balance Import: General Process



Index

Numerics

2848 4
52-53-week year returns 41
8941 3

A

ACA 3
accounting method
 changing 42, 55
 entering on 1065 6
 multiple changes 59
accrual (accounting method) 6
address
 change of 6
 entering on Form 1065 5
 foreign 23
 on K-1 letter heading 28
 out-of-state 20
adjusted basis worksheet 24, 25, 40
adjustments
 depreciation 31
 to income and expenses 36
allocations
 section 754 26
 special (screen SA) 23, 25
alternative minimum tax (AMT) 21
amending
 a 1065 return 6, 16
 and TEFRA audit rules 16
 K-1 letters 29
amortization 13, 14, 29
analysis
 of capital accounts (Schedule M-2) 33
APPLD FOR 2
asterisks (on K-1 codes) 22
attachments
 binary 43
 to Form 3115 55, 62, 64
auto-balance 31, 40

B

bad debts 9, 11
bankruptcy returns, e-filing not allowed for 41
BAS 3
basis 25
 see also adjusted basis worksheet

book-to-tax differences (Schedule M-1) 31–32
business activity codes 6

C

calendar year returns 6, 15
cash (accounting method) 6, 11, 61
change
 of name or address 6
Change in Accounting Method 55–64
charitable contributions 7
Client Communications Editor (for letters) 28
codes
 business activity 6
 error/reject 43
 K-1 22, 40
 miscellaneous (screen 1) 20
 multi-form 34, 56, 64, 65
compensation of partners 9
contact information (for state returns) 18
contributions, charitable 7
cost of goods sold, *see* Schedule A (Cost of Goods Sold)
cover letters (K-1) 28
coversheets 40
credits 9, 14, 36
Ctrl+W (detail) worksheets 7, 8, 9, 47, 61

D

data entry
 for state information 19
 importing trial balance into 46–55
 state tabs in 19
dates
 business start 6
 tax year 6
decrease to basis 25
deductions 9–15, 27
depletion 13
depreciation
 entering 12–13
 for cost of goods sold (Schedule A) 8
 of rentals 12, 34
 on short-year returns 6
 printing Form 4562 39
 trial balance (business returns only) 53
detail (Ctrl+W) worksheets 7, 8, 9, 47, 61
domestic production activities deduction 27

due dates 15

E

e-filing 41

Form 8879-PE 16

PDF attachments 43

Elections

Safe Harbor 38

electronic signatures (PIN) 15

employee benefit plans 14

envelope coversheets 40

error codes 43

ES 4

Estimated Taxes Screen 4

expenses 9–15

exporting K-1 data 23

extensions 15, 40

F

farm profit or loss 8

filing instructions 40

final return 6

fiscal year returns 6

foreign

addresses for partners 23

ownership 17

transactions 21

FOREIGNUS 2

Form 3115 (Application for Change in Accounting Method) 42, 55–67

Form 4562 (Depreciation and Amortization) 34, 39

Form 4797 (Sales of Business Property) 9

Form 5884 (Work Opportunity Credit) 36

Form 6478 (Biofuel Producer Credit) 9, 36

Form 6765 (Credit for Increasing Research Activities) 15, 36

Form 7004 (Application for Automatic Extension of Time to File) 15

Form 8082 (Notice of Inconsistent Treatment or Amended Return) 16

Form 8820 (Orphan Drug Credit) 15, 36

Form 8825 (Rental Real Estate Income and Expenses of a Partnership or an S Corporation) 33–36

Form 8825 (Rental Real Estate) 35

Form 8844 (Empowerment Zone Employment Credit) 37

Form 8845 (Indian Employment Credit) 36

Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) 11, 37

Form 8864 (Biodiesel Fuels Credit) 9, 36

Form 8873 (Extraterritorial Income Exclusion) 15

Form 8879-PE (IRS e-file Signature Authorization for Form 1065) 16

Form 8881 (Credit for Small Employer Pension Plan Start-up Costs) 37

Form 8893 (Election of Partnership Level Tax Treatment) 39

Form 8903 (Domestic Production Activities Deduction) 27

Form 8912 (Credit to Holders of Tax Bonds) 36

Form 8912 (Credit to Holders of Tax Credit Bonds) 37

Form 8916A (Supplemental Attachment to Schedule M-3) 33

Form 8941 (Credit for Small Employer Health Insurance Premiums) 37

Form 8941 (Credit for Small Employer Health-Insurance Premiums) 15

Form T (Forest Activities Schedules) 13

G

gains and losses 8, 9

gross receipts 7

guaranteed payments 10

H

header information 5

health insurance 14

health savings account (HSA) 10

I

importing trial balance 46–55

inactive returns 42

income 7–9

increase to basis 25

instructions for filing 40

insurance

and contributions to benefit plans 14

entering deductible payments for 10

proceeds, income from 9

interest

expense 11

income 9

ownership of (Schedule B) 17–18

inventory (on Schedule A, Cost of Goods Sold) 8

IRAs 14

Item M (on Schedule K-1) 24

K

K-1, Schedule for 1065 21–25

L

letters (K-1) 28

M

M, item (on Schedule K-1) 24
M-3 2
maintenance costs 10
medical care for employees 14
Multi-State Apportionment 19

N

name change 6
name control reject 43
net
 farm profit or loss 8
 gain or loss 9
next-year depreciation listing 39
number of partners 6

O

ordinary gains and losses 8, 9
other
 costs (Schedule A) 8
 income (loss) 9
overrides
 of calculations for partners 23
 on screen 1 20
ownership
 of interest (Schedule B) 17

P

partners
 compensation of 9
 foreign addresses for 23
 guaranteed payments to 10
 health insurance for 14
 number of 6
 returns with numerous 22
 Schedule K-1 21
 special allocations for 25
 updating data annually 25
partnership, termination of 6
payments, guaranteed 10
PDF 45
PIN (electronic) signatures 15
printing
 1065 returns 39
 adjusted basis worksheets 40
 cover letter for K-1 28
 force 39
 Form 8903 for each partner 27
 K-1 items 22
 suppressing/forcing documents 39
prior-year returns, updating 5

R

real estate 53
receipts 7
refunds, state 9
reject codes 43
rent paid on business property 11
rental activities 33–36
repair costs 10
resident state 18, 20
retirement plans 14
returns
 52-53-week year 41
 bankruptcy 41
 extensions for 15
 fiscal and calendar year 6
 inactive 42
 short-year 6
 signing 15
 updating prior-year 5

S

Safe Harbor Elections 38
scanning attachments for e-filing 43
Schedule A (Cost of Goods Sold) 7–8
Schedule B (Other Information) 17
Schedule D, Form 3115 62
Schedule E (Change in Depreciation or Amortization)
 (Form 3115) 64
Schedule E, Form 3115 64
Schedule K (Partners' Distributive Share Items) 7, 21
Schedule K-1 (Partner Information) 21–25
Schedule L (Balance Sheet per Books) 29–31, 39
Schedule M-1 (Reconciliation of Books With Return) 39
Schedule M-1 (Reconciliation of Books) 31
Schedule M-2 (Analysis of Capital Accounts) 33
Schedule M-3 (Net Income (Loss) Reconciliation) 32
section
 179 13, 25
 481 9
 754 13, 26
self-employment income 36
SEP or SIMPLE plans 14
short-year returns 6
signatures, electronic 15
special allocations (screen SA) 23, 25
state
 overriding information related to 20
 resident 18
 tabs in data entry 19
 tax refunds 9
state-specific information 18

T

tax

returns, *see* returns

years (fiscal vs calendar) 6

Tax Equity and Fiscal Responsibility Act (TEFRA) 16

taxes and licenses 11

technical termination 6

termination of partnership 6

trial balance import

and depreciation 8

and SCH2 screens 30

instructions for using 46–55

U

updating

a prior-year return 5

partner data annually 25

V

Vista (Windows operating system) 51

W

wages 9