# Practice Return 5

Drake Tax 2019

In this scenario, you will practice entering the following:

- Form W-2 Income
- Child Tax Credit Due Diligence
- Schedule E Income and Deductions
- Unemployment Compensation

## Instructions

This practice return will help you become familiar with return preparation in Drake Tax. Use the scenario information and the attached source documents to complete the return. After the return is complete, compare your results with the solutions provided online.

Go to <u>Support.DrakeSoftware.com</u> for solutions and more practice returns. After logging in, access **Training Tools > Practice Returns**.

To agree with provided solutions:

- Suppress state returns by entering "0" in the Resident state field on Screen 1
- Install all program updates
- Correct all EF diagnostic messages

### **Attached Source Documents**

- Form W-2 (2)
- Form 1099-G

# SCENARIO INFORMATION

North and South East are married and have one child. They are both U.S. citizens and lived the entire year at their home in Chicago, IL.

North and South provided copies of their IL driver's license. North's driver's license number is 123456789 and was issued 01/01/2017 and expires 01/01/2021. South's license number is 987654321 and was issued on 01/01/2017 and expires on 01/01/2021.

# **TAXPAYER INFORMATION**

NAME	North East
SSN	400-00-6005
DATE OF BIRTH	11-25-1978
EMAIL	North@1040.com
OCCUPATION	Meteorologist

### **SPOUSE INFORMATION**

NAME	South East
SSN	400-00-5006
DATE OF BIRTH	11-25-1979
EMAIL	South@1040.com
OCCUPATION	Graphic Designer

Address: 725 Windy Ave, Chicago IL 60601

**Phone:** 828-524-8020

# **DEPENDENT INFORMATION**

## The dependent:

- is unmarried and a U.S. citizen
- lived with the taxpayers in the U.S. for the entire year
- cannot be claimed by anyone other than the taxpayers

DEP	ENI	DENT	1 -	SON
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NAME	West East
SSN	400-22-1212
DATE OF BIRTH	11-25-2016
MTHS IN HOME	12

There is no active Form 8332, Release/Revocation of Claim to Exemption for Child by Custodial Parent, or similar statement in place.

## INCOME

Both North and South were employed during 2019 and received Form W-2 in January 2019. North was unemployed for a couple of months; therefore, he also received Form 1099-G reporting unemployment compensation.

The taxpayers own a duplex and occupy one half and rent out the other half. This rental is conducted as a Qualified Joint Venture and is operated as a trade or business. The unit was rented for the full year. The Easts spent approximately 650 hours managing the property during 2019. They received \$36,000 in rent in 2019.

They had the following direct expenses attributable to the rental property only:

Legal fees \$500 Repairs \$2500 Supplies \$500

The following expenses are for the entire property including the taxpayers and tenants portion of the property:

Insurance \$850 Taxes \$1200 Utilities \$1000

The duplex was placed in service on January 1, 2019 and the basis of the rental unit is \$275,000. The Easts would like to deduct depreciation for the duplex.

# **OTHER FACTS**

During 2019, the taxpayers made four quarterly estimated payments in the amount of \$500 each.

## **HEALTH COVERAGE INFORMATION**

The Easts were covered by minimum essential coverage for every month of the year through South's employer's plan.

# **DUE DILIGENCE**

For the purposes of this practice return, assume the following:

- the return was completed based on information provided to you by the taxpayer
- you interviewed the taxpayer, asked questions, and documented the taxpayer's responses
- you reviewed adequate information to determine the taxpayer is eligible to claim any credits present on the return
- all information provided appears to be correct, complete, and consistent
- reasonable inquiries were made to determine correct and complete information
- all inquiries were documented
- all record retention requirements are met
- the taxpayer provided documentation to substantiate eligibility for, and the amount of, the credits present
- any credits present on the return have never been disallowed or reduced in a previous year
- school records were provided to document residency of the child
- the taxpayer's income appears to be sufficient to support the taxpayers and qualifying child

	nployee's social security number 0 - 00 - 6005					
b Employer identification number (EIN) 31-1111111			1 Wages, tips, other compen 6.9	, 512	2 Federal I	ncome tax withheld 7,125
© Employer's name, address, and ZIP code NIMBUS MEDIA			3 Docial security wages 6.9	,512	4 Oocial se	curity tax withheld 4,310
2200 CYCLONE LANE			5 Medicare wages and tips 6.9	,512	6 Medicare	tax withheld 1,008
CHICAGO	IL 60	0611	7 Social security tips		8 Allocated	tips
d Control number			9 Verification code		10 Depende	nt care benefits
Employee's first name and initial	Last name	Duff.	11 Nonqualified plans		12a See Instr	uctions for box 12
NORTH EAST	T		13 Statutory Flatfrement plan	Third-party sick pay	12b	
725 WINDY AVE CHICAGO	IL 606	601	14 Other	_	120	
					12d 0 8	
f Employee's address and ZIP code						
15 State Employer's state ID number 16	6 State wages, tips, etc. 17	7 State income tax	18 Local wages, tips, etc.	19 Local in	come tax	20 Locality name

W-2 Wage and Tax Statement

a Employee's social security number 400-00-5006	
b Employer identification number (EIN) 91-1111111	1 Wages, tips, other compensation 3 6 , 5 0 0 2 Federal income tax withheld 3 , 8 5 0
C Employer's name, address, and ZIP code OH GRAPHICS	3 Social security wages 4 Social security tax withheld 2,263
1400 PROOF WAY	5 Medicare wages and tips 6 Medicare tax withheld 529
CHICAGO IL 60623	7 Social security tips 8 Allocated tips
d Control number	9 Verification code 10 Dependent care benefits
Employee's first name and initial     Last name     Suff.	11 Nonqualified plans 12a Gee instructions for box 12
SOUTH EAST	13 Oblitory Between Theology 12b
725 WINDY AVE CHICAGO IL 60601	14 oner 120 4 120 4 120 4 120 4 120 4 120 4 120 4 120 4 120 4 120 120 120 120 120 120 120 120 120 120
f Employee's address and ZIP code  15 State Employer's state ID number 16 State wages, tips, etc. 17 State income tax	18 Local wages, tos, etc. 19 Local income tax 20 Locality name

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

Employment Security Division
1122 Security Rd
Chicago IL 60611

PAYER'S federal identification number 77-1111111

PAYER'S federal identification number 400-00-6005

RECIPIENT'S name

CORRECTED (if checked)

1 Unemployment compensation

\$ 3600

2 State or local income tax refunds, credits, or offsets

Form 1099-G

4 Federal income tax withheld \$

RECIPIENT'S name

5 RTAA payments

6 Taxable grants

// 111111	100 00 0000			9		
RECIPIENT'S name		5 RTAA payments		6 Taxable grants		
North East		\$		\$		
NOTON EGSC		7 Agriculture payments		8 If checked, box 2 is		
Street address (including apt. no.)		\$		trade or business income		
725 Windy Ave		9 Market ga	in			
City or town, state or province, country		\$				
Chicago IL 6060	1	10a State	10b State identification	n no.	11 State income tax withheld	
Account number (see instructions)		1			e	

Form 1099-G