

Practice Return 9

Drake Tax 2019

In this scenario, you will practice entering the following:

- Farm Income
- Auto Expenses
- Estimated Tax Payments
- Child Tax Credit Due Diligence

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 [Support.DrakeSoftware.com](https://support.drakesoftware.com) 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

- Depreciable Asset List

SCENARIO INFORMATION

Caesar and Cobb Salad have been married for several years and have two daughters. Caesar is a dairy farmer and Cobb is a stay-at-home mother.

The taxpayers are both U.S. citizens and cannot be a qualifying child or dependent on anyone else's federal tax return. Both provided a copy of their driver's license. Caesar's driver's license was issued in OK on 01/01/2017 and the number is 123456789. His license expires on 01/01/2021. Cobb's license number is 987654321 and was issued in OK on 01/01/2017. Her license expires on 01/01/2021.

TAXPAYER INFORMATION

NAME	Caesar Salad
SSN	400-00-6009
DATE OF BIRTH	02-27-1977
EMAIL:	Caesar@1040.com
OCCUPATION:	Farmer

SPOUSE INFORMATION

NAME	Cobb Salad
SSN	400-00-9006
DATE OF BIRTH	12-21-1978
EMAIL:	Cobb@1040.com
OCCUPATION:	Stay-at-home mother

Address: 144 Romaine St, Albert OK 73001

Phone: 828-524-8020

DEPENDENT INFORMATION

DEPENDENT 1 - DAUGHTER

NAME	Tabbouleh Salad
SSN	400-11-3210
DATE OF BIRTH	12-07-1999
MTHS IN HOME	12
CHILD CARE	\$0

DEPENDENT 2 - DAUGHTER

NAME	Taco Salad
SSN	400-77-7777
DATE OF BIRTH	07-04-2009
MTHS IN HOME	12
CHILD CARE	\$0

Both dependents:

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

Tabbouleh is a full-time student at a local university. She received tax-free scholarships for the full cost of all tuition and fees. The Salad family didn't incur any out of pocket cost for her education.

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

INCOME

Caesar is a dairy farmer. The farm income was the only source of income for the household in 2019. Caesar uses the cash method of accounting and he materially participated in the business. The EIN for the business is 51-0000000. There were no payments made which required Form 1099 to be filed.

In 2019, the farm received the following income:

Sale of Livestock	\$5900
Sales of Products Raised	\$125000
Agricultural Payments (all taxable)	\$2800
Cost of Items Bought for Resale	\$2900

The farm incurred the following expenses:

Chemicals	\$1900
Feed	\$6750
Fertilizers	\$1100
Freight and Trucking	\$1900
Gasoline	\$2300
Farm Business Insurance	\$2500
Repairs	\$800
Seeds and Plants	\$1000
Storage and Warehousing	\$6500
Supplies	\$3500
Utilities	\$4100
Vet Fees	\$8400

Caesar has been deducting business miles on his 2012 work truck for several years. The truck was placed in service on Jan. 1, 2012. In 2019, he drove 12,500 business miles which is logged weekly in writing. He did not use the truck for any commuting or personal miles even though it was available during off duty hours. He has other vehicles available for personal use.

He also had the following vehicle expenses for the work truck:

Gasoline	\$1500
Insurance	\$850
Tires	\$1000

HEALTH COVERAGE INFORMATION

All members of the household covered by a plan that provided minimum essential coverage for every month of the year. The Salad family did not provide a copy of Form 1095-B, but they provided documentation showing they paid \$17,000 in health insurance premiums for the family in 2019.

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
- documentation is provided for residency of children (school records)
- the taxpayer's income appears to be sufficient to support the taxpayer and qualifying children

OTHER INFORMATION

The taxpayers made four estimated tax payments in the amount of \$2,300.

	Description	Date Placed in Service	Cost/Basis	Method	Life	Prior Depr	Prior 179	Prior Bonus
1	Bailer	1/23/2019	31500	MACRS	7			
2	Spreader	4/12/2019	11000	MACRS	7			
3	Filtration Sys	3/09/2019	1812	EXP	7			
4	Storage Bldg	2/22/2017	62500	MACRS	20	3125.00		
5	Plate Coolers	5/15/2018	1500	EXP	7		1500	
6	Milk Meters	2/22/2017	6900	MACRS	7	756.84		
7	Double Sink	1/01/2018	800	EXP	7		800	
8	Truck	1/01/2012	35000	M	5	35000		

All assets were used exclusively in the business.

The election was used to Opt. Out of all bonus depreciation for the 2019 tax year.