

Practice Return 12

Drake Tax 2019

In this scenario, you will practice entering the following:

- Partners' information
- Balance Sheet
- Partnership Income and Deductions
- Cost of Goods Sold
- Allocation of QBI, W-2 Wages, and UBIA between two businesses in partnership

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 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

SCENARIO INFORMATION

A domestic general partnership. Two Brothers, provides landscaping consulting and runs a retail plant shop. The business was started on January 7, 2005 and uses the accrual method of accounting.

The partnership files returns using a calendar year.

PARTNERSHIP INFORMATION

NAME	Two Brothers
EIN	40-0006012
EMAIL:	TwoBros@1040.com

Address: 120 Hermanos St, Savannah GA 31405

Phone: 828-524-8020

PARTNER INFORMATION

PARTNER 1

NAME	Big Brother
SSN	400-00-0590
TYPE OF PARTNER	General, Individual
PARTNER %	Profit: 50%
	Loss: 50%
	Capital: 50%
BEG CAP ACCT	\$304,572
PHONE:	828-524-8020
EMAIL	bb@1040.com
ADDRESS:	841 First Born Ln Savannah GA 31404

PARTNER 2

NAME	Little Brother
SSN	400-00-0580
TYPE OF PARTNER	General, Individual
PARTNER %	Profit: 50%
	Loss: 50%
	Capital: 50%
BEG CAP ACCT	\$304,571
PHONE:	828-524-8020
EMAIL	lb@1040.com
ADDRESS:	314 Sibling Circle Savannah GA 31404

Neither partner contributed property with a built-in gain or loss. Both are U.S citizens and reside in the U.S. Big Brother will sign the return and serves as the partnership representative.

The method of accounting used to compute the partners' capital accounts is based on the partnership's income and deduction for federal tax purposes (tax basis).

INCOME

Gross Receipts	\$1,097,978
Returns & Allowances	\$30,270

DEDUCTIONS

Salaries & Wages	\$54,000	Utilities	\$8,400
Repairs & Maintenance	\$11,000	Telephone	\$1,000
Rents	\$36,000	Supplies	\$6,500
Retirement Plans	\$4,000	Postage/Shipping	\$2,000
Advertising	\$2,500	Office Expense	\$1,300
Accounting	\$2,700	Workers' Comp Insurance	\$7,200
Building Insurance	\$6,500	Janitorial	\$11,250
Liability Insurance	\$4,000	Legal Services	\$6,000

TAXES AND LICENSES

Local Property Taxes	\$7,000
Payroll Taxes	\$8,000
Licenses	\$2,000

COST OF GOODS SOLD (Section 263A does not apply)

Beginning Inventory	\$147,600
Purchases	\$347,800
Cost of Labor (W-2 wages)	\$143,000
Other Costs	
Misc	\$5,000
Professional Fees	\$6,000
Utilities	\$16,000
Warehousing	\$7,000
Ending Inventory	\$150,200

The method used to value inventory is lower of cost or market. There was no change in determining inventory.

DISTRIBUTIONS

Distributions of cash and marketable securities: \$300,000

BALANCE SHEET

	Assets	
	<u>Beginning</u>	<u>Ending</u>
Cash	\$1,500,000	\$1,494,569
Accounts Receivable	\$205,500	\$205,500
Allowances for Bad Debt	\$1,500	\$1,500
Tax-exempt Securities	\$100,000	\$100,000
	Liabilities	
Accounts Payable	\$121,000	\$121,000
Payables less than 1 year	\$8,000	\$8,000
Nonrecourse Loans	\$5,800	\$5,800
Payables more than 1 year	\$86,000	\$86,000
Partners' Capital Accounts	\$609,143	\$451,502

DEPRECIABLE ASSETS

Description	Date in Service	Cost	Method	Life	Prior Depreciation
Asset 1	06/15/2019	\$67,000	MACRS	5	\$0
Asset 2	05/15/2016	\$35,000	MACRS	5	\$27,440
Asset 3	11/22/2009	\$65,000	MACRS	7	\$65,000
Asset 4	05/15/2005	\$125,000	ARP	39	\$65,182
Asset 5	09/15/2017	\$25,000	MACRS	7	\$12,245

TRADE/BUSINESS INFORMATION

The Two Brothers partnership is comprised of two businesses, a Landscape consulting business and a retail store. The following is the allocation of the qualified business income including income and loss, W-2 wages, and the unadjusted basis of assets immediately after acquisition (UBIA).

BUSINESS 1 ALLOCATIONS

NAME	Bros Landscaping Consulting*
INCOME	\$42,359
W-2 WAGES	\$54,000
UBIA	\$17,000

*Considered a specialized service business

BUSINESS 2 ALLOCATIONS

NAME	Bros Plant Shop
INCOME	\$100,000
W-2 WAGES	\$143,000
UBIA	\$300,000

OTHER INFORMATION

Neither partner in the partnership was a disregarded entity, a partnership, a trust, an S corporation, an estate, a nominee, or similar person.

The partnership:

- does not meet all the requirements listed on question 4 on Form 1065, page 2.
- did furnish both Schedule K-1s to each partner before the due date.
- is not a publicly traded partnership.
- did not have any debt that was cancelled, forgiven, or had terms modified so as to reduce principal amount of debt.
- did not file Form 8918 nor was it required to file the form.
- did not have any interest in a foreign account.
- was not the grantor of or transferor to, a foreign trust.
- has not made a Section 754 election.
- did not make an optional basis adjustment under Section 743(b) or 734(b).
- is not required to adjust the basis of partnership assets because of substantial built-in loss or substantial basis reduction.
- the partnership has never distributed any property received in a like-kind exchange or contributed to another entity.
- did not distribute to any partner a tenancy-in-common or other undivided interest in the partnership property.
- is not required to file Form 8858.
- has no foreign partners.
- made no payments in 2019 that would require it to file Form(s) 1099.
- made no payments that would require it to file Form 1042 or Form 1042-S under Chapter 3 (Sections 1411 through 1464) or Chapter 4 (Sections 1471 through 1474).

- was not a specified domestic entity required to file Form 8939 for the tax year.
- is not a section 721(c) partnership.
- did not pay or accrue any interest or royalty for which the deduction is not allowed under section 267A.
- did not have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year.
- is not a tax shelter.
- did not elect out of the centralized partnership audit regime.