

User's Manual >>>

Tax Year 2010



Supplement: Partnerships (1065)

Drake Software User's Manual

Tax Year 2010

**Supplement: Partnerships
(1065)**

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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 2010* 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 2010 program reflects all changes to credits and deductions, including discontinuations. For details on new regulations for 2010, see the IRS instructions for Form 1065.

Data Entry and Calculation

This year's changes to data entry and calculation are summarized below:

- **Improved Calculation Results Window** — The **Calculation Results** window now features more EF message links. (An EF message link takes you directly to the screen that is causing the EF message.)
- **Change of Ownership Percentage Calculation** — Ownership change percentage calculations are now done for profit, loss, or capital.
- **Multiple Forms 8027 Available** — Returns can now include multiple of Forms 8027, Employer's Annual Information Return of Tip Income & Allocated Tips.
- **Depreciation on Installment Sales and Like-Kind Exchanges** — For a sold item on the **4562** screen, three new options are available in the **Property type** drop list. Selecting one of these options (listed below) prevents the program from automatically carrying the sale information to Form 4797.
 - **IN** — Installment sale, section 1245 property (Form 6252)
 - **IS** — Installment sale, section 1250 property (Form 6252)
 - **LK** — Like-kind exchange (Form 8824)
- **All Copies of Form 8805 Available** — For Form 8805, Copies A, B, C, and D are now available in the program.

- **Section 179 Expensing for Qualified Real Property** — In accordance with the Small Business Jobs Act of 2010, a taxpayer may elect under section 179 to expense up to \$250,000 of the cost of qualifying real property placed in service during the taxable year. In Drake, this election is made on the **4562** screen.

Screens and Forms

This year's main changes to screens and forms are summarized below:

- **Screen L** — The **L** and **L2** screens from previous years have been consolidated into one screen for easier data entry. Links to the **SCH2** screen are provided for those items requiring a subsidiary schedule.
- **Schedule M-2 Worksheets** — Worksheet WK_M2 is now produced if a Schedule M-3 is present on a return.
- **Form 5884-B** — The new IRS Form 5884-B, New Hire Employment Credit, is included in the 2010 program. Use screen **588B** to complete this form.
- **Form 8941** — Form 8941, Credit for Small Employer Health Insurance Premiums, has been added to all packages. Use screen **8941** to complete information for this credit.

Electronic Filing Features

- **Amended Returns EF Eligible** — Amended 1065 returns are now eligible for e-file. See "Amending a Return" on page 13 for information on e-filing an amended Form 1065.
- **More EF "Trapping" For Business Returns** — New programming will help the software catch more errors in a return before it can be e-filed.
- **EF Messages and Notes** — Many of the EF messages and notes pages have been rewritten for improved clarity and to better help with troubleshooting issues in business returns.
- **EF Messages for Accepted Returns** — An EF messages is now produced when a return is calculated that has already been e-filed and accepted.

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:

- With all other returns in the program using **Last Year Data > Update 2009 to 2010** (not recommended)
- As a single return (updated one at a time) using **Last Year Data > Update 2009 to 2010** (recommended)
- When you open the return for the first time in the 2010 program and are prompted to update it

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**.

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 35.

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** (Figure 1).

The screenshot shows a section titled "If not a calendar year:". Below this title are two text input fields: "Fiscal year beginning....." and "Fiscal year ending.....". Below these fields is a checkbox labeled "52-53-week tax year" followed by a blue hyperlink "ELEC Screen".

Figure 1: Fiscal year entry fields on screen **1**

Short-Year Returns

An entity 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 most income and deductions on screen **3**, the **INC (Other Income)** screen, the **DED (Other Deductions)** screen, and the **TAX (Taxes and Licenses)** screen. **INC** screen amounts flow to Form 1065, page 1, line 7 (“Other income (loss)”). (Also see “Other Income (Loss)” on page 6.) **DED** screen amounts flow to Form 1065, page 1, line 20. **INC** and **DED** data is shown on attached statement (STM) 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 screen **3**.

Figure 2: Schedule K fields at the bottom of screen **3**

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 screen **3** or screen **K**, but not both.

For information on the Schedule K items at the bottom of screen **3**, see “Schedule K (Partners’ Distributive Share Items)” on page 17.

Gross Receipts

Enter gross receipts or sales (Form 1065, line 1a) and returns and allowances (line 1b) on screen **3**. Drake calculates the difference and prints it in box 1c of the return.

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 (Schedule A)

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

NOTE

On screen **A**, items 9a through 9e are direct-entry fields and follow the format of IRS Schedule 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 fields on screen **L** (**Schedule L - Balance Sheet - Assets**) are overrides; entries here will override inventory data from screen **A**.

Line 5, Other Costs

Drake provides two fields for line 5: **Other costs - depreciation** and **Other costs - excluding depreciation** (Figure 3).

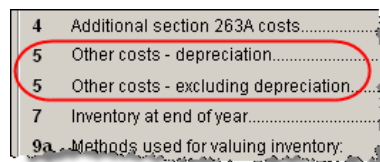


Figure 3: Other costs and depreciation

For **Other costs - depreciation**, enter any depreciation amounts that relate to the cost of goods sold. Amounts entered in this field automatically adjust the total depreciation that is carried to page 1. For **Other costs - excluding depreciation**, use a CTRL+W worksheet. The depreciation amount is included on the statement for other costs.

NOTE

Line **16b** on screen **3**, **Income and Deductions**, is an adjustment field for depreciation from Form 4562 not entered on Schedule A.

Importing Trial Balance to Sch A

If using the trial balance import feature (see “Importing Trial Balance Information” on page 40), 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 Schedule A and is calculated accordingly. For more on depreciation and trial balance import, see “Depreciation” on page 47.

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 (Profit or Loss From Farming)**. Farm profit or loss from other partnerships, estates, or trusts should be entered on line 4 of the return. (Use screen **K1P** or **K1F**; these can be accessed from the **Data Entry Menu** or by clicking the hyperlinks on screen **3**.)

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

Net Gain (Loss)

Any net gain or loss from the sale, exchange, or involuntary conversion of assets used in a trade or business activity (line 6 of Form 1065) comes from information entered elsewhere in the software.

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, Alcohol and Cellulosic Biofuel Fuels Credit
- **Screen 8864** — Form 8864, Biodiesel and Renewable Diesel Fuels Credit

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.

Compensation and Wages

Use line 9 of the **Form 1065 - Deductions** section of screen **3** 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 screens **3** and **K1** to report guaranteed payments and partner health insurance. Note in Figure 4 and Figure 5 that guaranteed payments and health insurance are entered as separate amounts.

NOTE

If the screen **3** amounts do not equal the respective totals from the **K1** screens (see Figure 4 and Figure 5), the program generates a "Guaranteed Payment Mismatch" message. The return cannot be e-filed until this message is cleared.

Guaranteed Payments

To report guaranteed payments to partners:

- Enter *total* guaranteed payments on screen **3**, line 10 (Figure 4).

The screenshot shows the 'Form 1065 - Deductions' section. Line 10, 'Guaranteed payments to partners', is circled in red. Other lines include: 9 Salaries and wages (other than to partners), 11 Repairs and maintenance, and 12 Bad debts. Each line has a corresponding input field on the right.

Figure 4: Screen 3, 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 5).

The screenshot shows the 'Part III: K-1 Direct Entries' section. Line 4, 'Guaranteed payments - services +/-', is highlighted. Other lines include: 'Guaranteed payments - other.....', '13M Health insurance.....', and 'Health insurance distribution reduction.....' with a checkbox.

Figure 5: 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 screen **3**, line 10. (See Figure 4.)
- Use screen **K1**, line 13M, to allocate deductible payments for insurance that constitutes medical care for a partner or a partner's spouse or dependents. (See Figure 5.)

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 screen **3** 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 screen **3** to enter the total of all bad debts that became worthless during the 2010 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 **D** (Schedule D, Capital Gains and Losses).

NOTE

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

Rents

Use screen **3** 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 **TAX** screen, accessible from both the **Data Entry Menu** and screen **3**, to enter tax and payment data. Amounts entered on this screen flow to the "Taxes and licenses" line of Form 1065. **TAX** screen 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 screen **3** 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-digit 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.

You can also find these instructions by clicking F1 in the **Statement number** field on 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, Schedule 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 in the **For** drop list at the top of the **4562** screen.)

Using Screen 3 for Direct Entry

As explained further in “Line 16, Depreciation” following, screen **3** has two lines for direct entry of depreciation:

- **Line 16a** — Depreciation
- **Line 16b** — Depreciation claimed elsewhere on return (other than Schedule A)

Any item entered in a depreciation field on screen **3** is added to the calculations from all **4562** screens. Screen **3** 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 2010*.

Line 16, Depreciation

Line 16 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** specifically for depreciation that is claimed elsewhere.

14	Taxes and licenses (enter on TAX screen).....	
15	Interest expense (use SCH Screen for self-charged interest statement).....	
16a	Depreciation.....	Form 4562
16b	Depreciation claimed elsewhere on return (other than Schedule A).....	
17	Depletion (do not deduct oil and gas depletion).....	

Figure 6: Depreciation from screen **3**

Both lines **16a** and **16b** on screen **3** 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 screen **3**) to enter depreciation claimed on Schedule A. An entry on screen **A** adjusts any entry on line **16b** of screen **3** 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 23.

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.

NEW FOR
2010

In accordance with the Small Business Jobs Act of 2010, a taxpayer may elect, under section 179, to expense up to \$250,000 of the cost of qualifying real property placed in service during the taxable year. This election is made in the **Qualified Real Property** section of screen **4562** (located in the lower-right corner of the screen). For more information, click F1 in the **Type** field of that section.

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 screen **3**. Omit timber (use Form T, Forest Activities Schedules) and oil and gas properties. Depletion should be figured for each partner.

Retirement Plans

Use screen **3** 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 screen **3** ("Salaries and wages" line) or screen **A** ("Cost of labor" line).

Payments to Partners

Do not use line 18 of screen **3** to deduct payments for partners to retirement or deferred compensation plans, IRAs, qualified plans, and Simplified Employee Pension (SEP) and 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 screen **3**, 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 7.

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 it accounts for insurance paid as a reduction in distributions for that partner. If this is the case, 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 18, 2011. By filing Form 7004, a partnership can extend the deadline five months to September 15, 2011. 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 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. 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-filing. See the IRS instructions for further details on signature requirements.

Missing PIN Information

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

Form 8879-PE

You must receive the completed and signed Form 8879-PE *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.

Amending a Return

New in 2010, an amended 1065 return can be e-filed using Drake.

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 2010*.

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 ID #, 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 or 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 \$1,00,000.
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 7) displays all partners with their respective numbers.

#	ID Nu...	Name	Pa
1	40000...	WILLIAM CARTER	IN
2	40012...	AL MODE	
3	44455...	BOB A LDO	
new	New R...		

Figure 7: 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.

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** for the alternative data for registered office, principal place of business, "Books in care of," and general contact information.

Screen **2** also has fields for the name, title, e-mail address, ID number, and telephone number of the partnership's contact person.

NEW FOR 2010 An **Address Line 2** field at the bottom of screen **2** is available for entering an alternative address. For example, if the address on screen **1** is a street address and the partnership also has a P.O. box, you can enter the P.O. box information on screen **2**.

Other States Data for other states must be typed 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).

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 2010*:

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

NOTE Worksheets outlining these and other adjustment and override fields are accessible through the **FAQ** (Frequently Asked Questions) screen.

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 screen 3. 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. Click F1 in a field to see what amounts are adjusted from elsewhere in the program, or see the adjustment and override worksheets, accessible from the **FAQ** screen.

Three screens are used for Schedule K:

- **Screen 1 of 3** — Income, Deductions, and Self-Employment
- **Screen 2 of 3** — Credits and Foreign Transactions
- **Screen 3 of 3** — 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.

Analysis of Net Income

Near the bottom of the third screen is the analysis of net income based on the partner type entered on the **K-1 Partner Information** screen and on information entered on the other parts of the three **K** screens. To make changes in the analysis of the type of partner, make entries in the override fields here. Otherwise, no entries are needed.

Ownership Transaction Dates

Enter ownership transaction dates at the bottom of the third **K** screen (Figure 8).

The screenshot shows a software interface for entering ownership transaction data. At the top, there is a header with a legend: Individual, PAR = Partnership, EXE = Exempt Organization, NOM = Nominee/Other. Below this, a section titled "Date of Change of Ownership" contains four rows for "Transaction Date #1" through "#4". To the right of these dates is a table with three columns: "Profit/Loss/Capital", "Loss", and "Capital". Each row in this table has three input fields separated by equals signs. A red box highlights this table. To the right of the table, there is a vertical note: "If the partner, the w... here a screen perce...". Below the table, there is a footer that reads: "*** PAGE DOWN or PAGE UP for other Sch K screens ***". At the bottom of the screen, there are two buttons: "New Screen" and "Press F1 or Right-Click for Help".

Figure 8: Date fields on third **K** screen

The information entered in these fields ties in to the data entered at the bottom of the **K1 Cont'd** screen for Schedule K-1 (Figure 9).

Complete the following only if ownership changed hands during the year:

	Profit	Loss	Capital
Change in ownership on date # 1.....	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %
Change in ownership on date # 2.....	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %
Change in ownership on date # 3.....	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %
Change in ownership on date # 4.....	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %

NOTE: Dates for ownership changes must be entered on the K screen.

Figure 9: Change-in-ownership fields on **K1 Cont'd** screen

When changes in percentage are entered on the **K1 Cont'd** screen, the program assumes that the changes occurred on the dates entered at the bottom of the third **K** screen (Figure 8). Enter the dates in sequential order. Do not skip any lines. (For instance, if the first transaction occurred on May 17, enter it on the **Date #1** line. If the second transaction occurred on December 8, enter it on the **Date #2** line.)

NOTE

If there is a change in ownership recorded on a partner's **K1 Cont'd** screen, an offsetting date change also must be entered on another partner's **K1 cont'd** screen. (For more information on dealing with ownership changes, see item P: **Entering Partner Ownership Changes** on the **FAQ** screen.)

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 **I** drop list (Figure 10), choose the type of partner (not the type of partnership). If this box is left blank, the program uses the default selection of **Individual**.

Type of Partner

G Gen or LLC member-mgr Limited or other LLC member

H Domestic partner Foreign partner

I PARTNER type (not the partnership)

J. Partner's %

	Before Change	
Profit.....	<input type="text"/>	INDIVIDUAL
Loss.....	<input type="text"/>	IND SMLLC
Capital.....	<input type="text"/>	IND PASSIVE
		CORPORATION
		S CORPORATION
		PARTNERSHIP
		DISREGARDED
		ESTATE

Figure 10: K-1 Partner Type

IRS K-1 Codes

A code sheet can follow the printing of each Form 1065 K-1 to help interpret the various codes used on Schedule K-1. To have this sheet printed with all K-1 schedules, 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 by marking the applicable box on the **PRNT** screen and are 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 to deactivate 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 re-activate 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 22.

Foreign Addresses

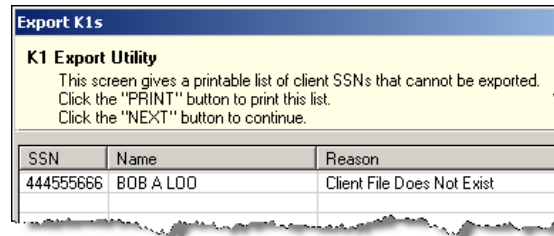
If the partner has a foreign address, enter the **Province (or State)**, **Country**, and **Postal Code** information in the **Foreign** address line of the **Partner Name and Address Information** section (along with the street address and city in the **Address** and **City** fields in section **F**.) 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.

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 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, as applicable.



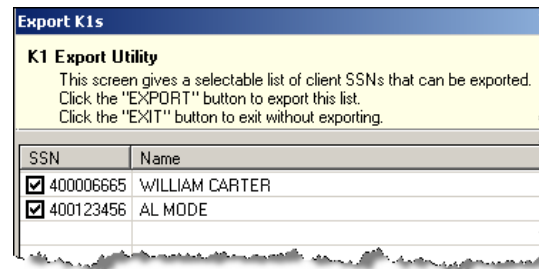
Export K1s

K1 Export Utility
This screen gives a printable list of client SSNs that cannot be exported.
Click the "PRINT" button to print this list.
Click the "NEXT" button to continue.

SSN	Name	Reason
444555666	BOB A LOO	Client File Does Not Exist

Figure 11: SSNs that cannot be exported

4. Click **Next** to continue. 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.)



Export K1s

K1 Export Utility
This screen gives a selectable list of client SSNs that can be exported.
Click the "EXPORT" button to export this list.
Click the "EXIT" button to exit without exporting.

SSN	Name
<input checked="" type="checkbox"/> 400006665	WILLIAM CARTER
<input checked="" type="checkbox"/> 400123456	AL MODE

Figure 12: SSNs ready to be exported

5. Click **Export**. The K-1 data will now appear 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.

K1S - Supplemental Information for Schedule K-1

K1 | K1 cont'd | Basis Wks | **Supplemental Info** | 8805 / Item M | 400005645 - Carl O'Haire

Use the K1G screen to enter global supplemental information for all K-1s.

Enter specific information for a single K-1 here. Information entered here is added to global supplemental information entered on K1G screen.

Supplemental Information

Note the following information pertaining to Carl O'Haire:

Figure 13: In this example, the information entered on the **K1S** screen appears only the individual's 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*:

- Select **Yes** in the **Item M on Schedule K-1** section if the **PRNT** screen
- 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.

Entering Other Partner Data

Use the tabs at the top of a partner's **Basis Wks** screen to access related screens for that partner.

- To access the **K1** screen, click the **K1** or **K1 cont'd** tab.
- To enter supplemental information that is specific to the individual partner, click the **Supplemental Info** tab. (To enter supplemental information that applies to *all* partners, use the **K1G** screen, accessible from the **Data Entry Menu**.)
- To enter data for item M of Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, click the **8805/Item M** tab.

NOTE

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

Special Allocations

Use the **SA** screen 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 an allocation method (percentage or dollar). If no allocation method is chosen, the program will not include the allocations when calculating the return.
4. 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 blank **SA** screen.

There is no limit to the number of partners than can be entered. If more than 10 partners line from the **Allocation type** drop list.

Section 754 Allocations

To allocate section 754 depreciation among specific partners:

- 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.
- 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.

Partner's ID Number and Name	Allocation Percentage or Amount
400001001 Thomas Hardy	35
400001002 Anicius Boethius	15
400001003 Charles Dickens	30
400001004 Alaric Visigoth	20

Figure 14: Entering partner allocation information on the SA screen

NOTE

The preferred allocation method is to use percentages. This prevents K-1 statements from being produced for any partners not receiving a section 754 deduction. (It may sometimes be necessary to enter a zero (0) for these partners in order to get the expected results.)

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 **Generate K1-8903 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 and mark the **Do not print entity information** box. (You must first select the **Use Firm Info on Letters** box at **Setup > Letters > Setup > Letterheads and Margins** 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** and mark the box labeled **Include K-1 letter with returns**. The signature on the return can be indicated 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 signature block will contain name of the partner on the first K-1.

Producing Letters for a Single Return

If no default has been set in **Setup > Options > Optional Documents** to produce K-1 cover letters with all returns, you can take the following steps to generate letters for a single return:

1. Open the return and go to screen **K1L**.
2. At the bottom of the screen, enter the name and title of the person who will be signing the K-1 cover letter.

Once the required signing information has been entered, a K-1 cover letter will be generated for each person receiving a K-1.

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 2010* before making changes to letter templates:

- "Introduction to Letters in Drake" in Chapter 2, Installation & Setup
- The "Letter Keywords" section of Appendix C, Keywords

To edit the text of the K-1 letter:

1. From the **Home** window, select **Setup > Letters**. 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, and U.S. government securities**. 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) and 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.

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**, or **13** (or press CTRL+2).

Statements

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

The type of statement produced by the program depends on the selected line and the IRS requirements. If a line is required, a statement labeled "STATEMENT" is produced and is e-filed with the return. If a line is *not* required, a statement sheet ("STMT") is produced and is *not* e-filed with the return.

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

The top screenshot shows a window titled "Select line number from drop list" with a dropdown menu set to "6 OTHER CURRENT ASSETS". Below the dropdown is a list of line numbers and descriptions:

- 1 Cash
- 2a Trade Notes and Accounts Receivable
- 2b Allowance for Bad Debts
- 3 Inventories
- 4 U.S. Government Obligations
- 5 Tax-exempt Securities
- 6 Other Current Assets (STATEMENT)
- 7 Loans to Shareholders
- 8 Mortgage and Real Estate Loans
- 9 Other Investments (STATEMENT)
- 10a Buildings and Other Depreciable Assets

The bottom screenshot shows a portion of the Schedule L return. Line 6 is "Other current assets (attach statement)" with a value of 96,200. The text "STATEMENT # 19" is circled in red next to the value.

Less allowance for bad debts		
3 Inventories		
4 U.S. government obligations		
5 Tax-exempt securities (see instructions)		
6 Other current assets (attach statement)	STATEMENT # 19	96,200
7 Loans to shareholders		
8 Mortgage and real estate loans		
9 Other investments (attach statement)		
10 a Buildings and other depreciable assets		

Figure 15: Data entered on the "Other current assets" line 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) and the totals of the **SCH2** screen amounts. For more information, see "SCH2 Detail" on page 46.

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. Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 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.

Table 1-1: 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 10b, column a), is subtracted from the “End of Year” accumulated depreciation (line 10b, 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 3a
 - Schedule M-3, Part III, line 24, as a negative amount
 - Form 9916-A, line 2l, 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 6a
 - Schedule M-3, Part III, line 24, as a positive amount
 - Form 9916-A, line 2l, 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 now includes direct access to the various **M3** screens (Figure 16).

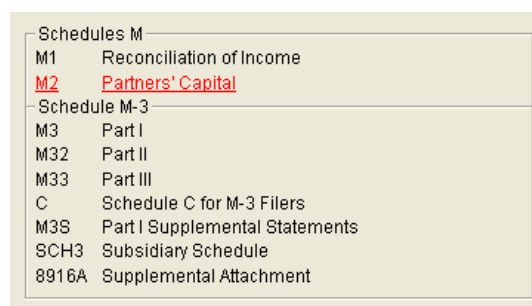


Figure 16: Data Entry Menu for M and M-3 schedules

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.

The calculated amount reported on Form 1065, line 1, Analysis of Income, flows from the 1065 to the M-3. All other M-3 data must be entered manually on the **M3** screen.

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 total income (loss) on Form 1065, page 3, Schedule K, line 11.

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 8916A). 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 8916A, 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.

NOTE

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.

As with the **SCH2** screen, the type of statement produced by the program depends on the selected line and the IRS requirements. See "The SCH2 Screen" on page 26 for more information.

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 48 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**. 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 2010*.

Description	Date Acquired	Cost / Basis
-------------	---------------	--------------

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," below.

Line 15, Other Expenses (list)

For rental properties with an “other” expense (line 15), enter the description in the **Description** field of the **8825** screen. For rental properties with more than one “other” expense, double-click in the text box to the right of the description, and enter the description and amount of the expense on the **Detail Worksheet**. (No description is needed in the line 15 **Description** field if the description is entered on the **Detail Worksheet**.)

The screenshot shows the 8825 form with the following items listed:

- 12 Utilities.....
- 13 Wages & salaries.....
- 14 Depreciation..... [Form 4562 +/-](#)
- 15 Other (list)
 - Meals and entertainment (subject to 50% limit).....
 - Additional other expenses.....

A red oval highlights the line 15 section. Below the form, a note states: "The statements produced for line 15, "Other (list)," are e-filed with the tax return."

Figure 18: Screen 8825, Description field for line 15, “Other Expenses”

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 — The two-page Form 8825 can contain information for up to eight rental activities. Each Form 8825 in View mode contains up to eight rental activities. If more than eight rental activities are entered, a second Form 8825 is created.

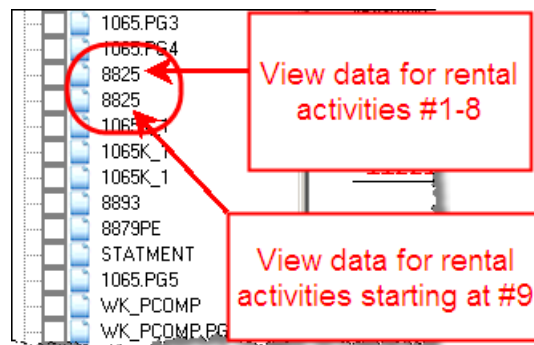


Figure 19: Multiple 8825 pages are created if more than eight rental activities

Each Form 8825 in View mode consists of one or more pages (depending on the number of rental activities) listing up to four rental activities per page. If more than four rental activities are entered, scroll down to the second page of the form when viewing.

- **8825 Statements** – Statements are titled **STM 8X**, where X equals A to F 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.) As shown in Figure 20, there are also 8825 attachments (**8825_ATT**) for other reporting information.

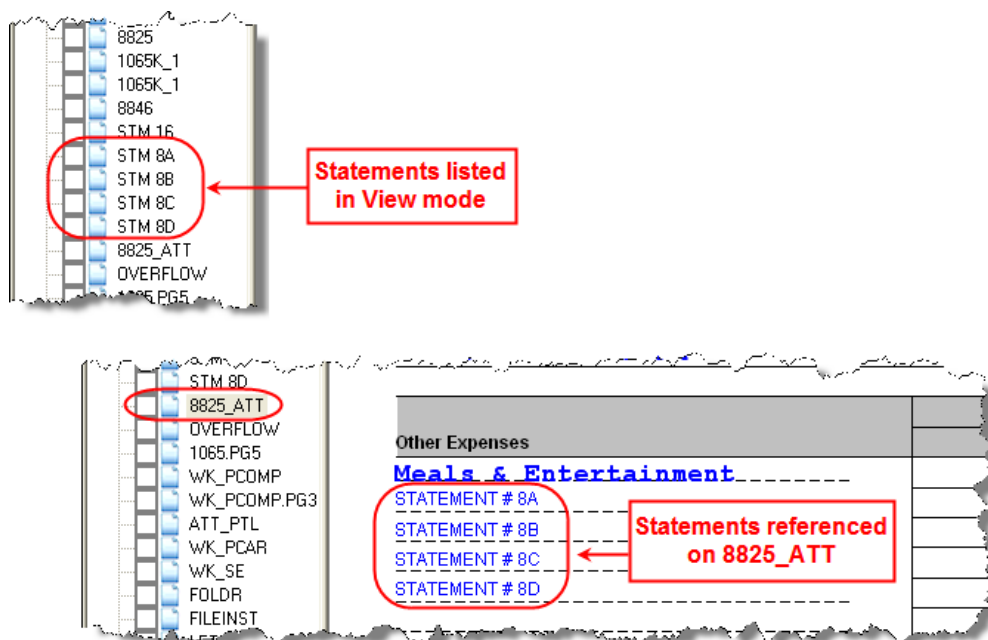


Figure 20: 8825 statements and attachments

Self-Employment Income

If the **Check to include in self-employment income** box 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 2010 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 2010.

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, Alcoholic and Cellulosic Biofuel Fuels Credit
- Form 8864, Biodiesel and Renewable Diesel 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 and Renewal Community Credit
- Form 8912, Credit to Holders of Tax Credit Bonds
- Form 8941, Credit for Small Employer Health Insurance Premiums

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 setup up globally 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 **Force Schedules L, M-1, M-2 & K-1 Section L**.
- **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 if it is inactive. Select this option to override the default for an inactive return.
- **PIN** — To have the preparer and officer signature appear on printed copy of return
- **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 for 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 (see Figure 21) to indicate the calculation method used for the partners' capital account. (If **Other**, indicate the method in the text box; this item is required.)

The screenshot shows a window titled "Item L on Schedule K-1 (Partner's capital account analysis)". It contains four checkboxes: "Tax basis", "GAAP", "Sec 704(b) book", and "Other". The "Other" checkbox is selected, and there is an empty text input field next to it. Below this window is another window titled "Item M on Schedule K-1" with the text "Did all partners contribute prop with a built-in gain or loss ?..". The "Yes" checkbox is checked, and the "No" checkbox is unchecked. At the bottom of the screen, there is a "Print Overrides" label.

Figure 21: 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 21 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, and city) can be either forced or suppressed from the **PRNT** screen to override the global setting in **Setup**.

NEW FOR
2010

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

In addition, you can select **Turn off autobalance** to disable the autobalance feature (see “Autobalance” on page 27) and select Prepare a Form 7004 extension if sending an extension application (see “Filing an Extension” on page 12).

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-filing 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 2010*.

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 3.

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 22.
2. Mark the **52-53-week tax year** box.

If not a calendar year:	
Fiscal year beginning.....	12-30-2009
Fiscal year ending.....	01-01-2011
<input checked="" type="checkbox"/> 52-53-week tax year	ELEC Screen

Figure 22: In this example, the fiscal year begins 12/30/09 and ends 1/1/11 (the Saturday closest to the end of December), giving the entity a 53-week year for 2010.

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** link to open the **Election Options** screen (Figure 23).

Figure 23: 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, on lines 1c and 2). Zeros are displayed 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-filing a 1065 return, you must contact the IRS for further information. The e-file help desk number is (866) 255-0654.

- **Reject Code 900** — The return type indicated in the return header must match the return type established with the IRS for the EIN.
- **Reject Code 905** — Electronic Filing Identification Number (EFIN) in the Return Header must be listed in the e-file database and in accepted status. If you get this reject code, you must update your e-file application to include the 1065 return type. (See Figure 24.) This can be done at the IRS website or by calling the IRS e-file Help Desk at (866) 255-0654.

4 Check the individual and/or business form types you will e-file for:

940 941 990 1040 ETD
 1041 1065 1120 1120 POL State Ack

Check the 1120 box for 1120 and 1120S. Check the 990 box for 990, 990-EZ, and 8868. See instructions for additional information on check boxes State Ack and ETD.

Figure 24: The 1065 box must be marked on Form 8633 in order to e-file Form 1065.

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-filing. 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 and go to the **PDF Attachments** screen, accessible from the **Electronic Filing** section of the **General** tab.

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

Table 1-2: 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

- Exit the **PDF Attachments** window.

Because you've indicated that a PDF document is attached, the program generates an EF message page 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:
 - A red **MESSAGES** alert (item #1 in Figure 25)
 - An **Attach PDF** button on the toolbar (item #2 in Figure 25)

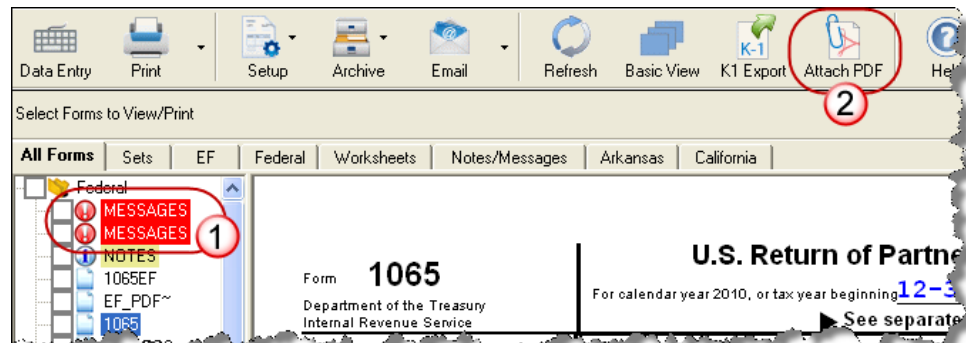


Figure 25: The red **MESSAGES** file and the **Attach PDF** button

- Click the red **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.

Required PDF Attachments
The list below contains PDF Attachments that are required for electronic filing. Select an item from the list and click 'Browse' to locate the associated PDF file. Items with a green check mark already have the PDF file. Items with a red 'X' are missing the required PDF File.

	Reference	Description	Required PDF FileName
✘	3115.III.Line 20	Proposed Change Documents	PROPOSEDCHANGEDOCUMENTS-00...
✘	Form 4684	Rev Proc 2009-20	REVPROC2009-20.PDF
✔	Pub. XXX	Painting, sculpture	ARTWORK.PDF
✘	Section abc	Signature of Officers	LEGALPAPERS.PDF

Browse Exit

Figure 26: The EF PDF Attachments window

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

Repeat for all documents with a red X. When all documents have been attached to a completed return, the return is ready to be e-filed.

Printing Generated Documents

In some instances, Drake generates a document that must be printed, signed, and scanned back into the computer to be attached to the return. For example, if Form 3115, Application for Change in Accounting Method, is present in a partnership return, message 1515 is generated when the return is calculated.

```

1515 PDF ATTACHMENTS MISSING FOR FORM 3115. Attach applicable PDF forms
from following list to e-file. Refer to EF_PDF~ form in View mode
to see which forms needs to be attached.

Part II :
  1) Form2848ForForm3115-NNN.pdf
  2) IssuePendingExaminationInfo-NNN.pdf
  3) ConsentsFromOperatingDivisionDirector-NNN.pdf

Part III :
  1) ConsentsFromOperatingDivisionDirector-NNN.pdf

```

Figure 27: EF message page

As shown in Figure 27, the EF message states that attachments are required. You would then need to obtain or complete the statements, scan them into the computer, save them as a PDF document, and attach them to the return.

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 exist in the 2010 version of Drake Software. If you haven't already, create a client file in Drake 2010 or update an existing client file from the prior year. Like several other functions of the tax software, this new feature requires Microsoft Excel (version 2000 or later).

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 Windows 7 and Microsoft Vista, click the **Office** button in the upper left and then click the **Excel Options** button at the bottom of the window. 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**.

- **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**.

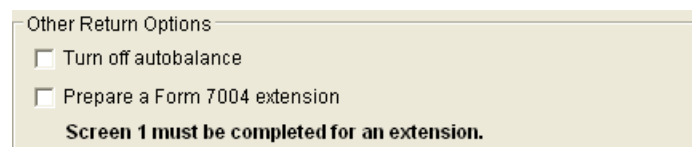


Figure 28: Disable autobalance in **Other Print Options** section of **PRNT** screen

- **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.

Figure 29: 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 screen 3; 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 30.

Form 1065 - Income		
1a	Gross receipts or sales.....	263204
1b	Returns and allowances.....	413
2	Cost of goods sold.....	Schedule A
4	Income from other partnerships, estates, and trusts.....	K1P Screen or K1F Screen
7	Other income (loss) (enter on INC screen).....	INC Screen

Figure 30: Example of an “unnecessary” detail worksheet

Remove unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 43 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 Microsoft Vista and Windows 7, you will 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**.

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 Drake10 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 31.

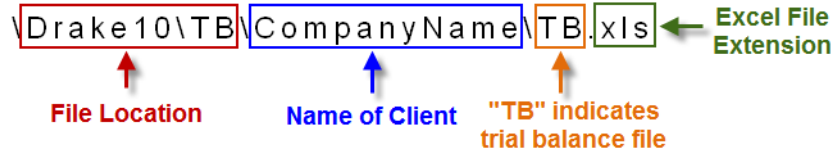


Figure 31: Example of trial balance template file name

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 1-3.

Table 1-3: 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, Sch, and/or line	Location of the amount on the printed return
Other information	Additional details for preparers; see "Details for Preparers" on page 45.

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 32; see also Figure 35 on page 44).

The screenshot shows a portion of a trial balance worksheet. Key elements are highlighted with red circles and numbers:

- Circle 1: A cell containing 'Net Income (Loss) = Schedule M-1, line 1' with a value of '\$100,600'.
- Circle 2: A row labeled 'Totals' with debit and credit amounts of '\$549,850'.
- Circle 3: A cell labeled 'OUT OF BALANCE?' with a value of '\$0'.

Figure 32: 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

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 45.

Direct Entry

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).

Detail Worksheets

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

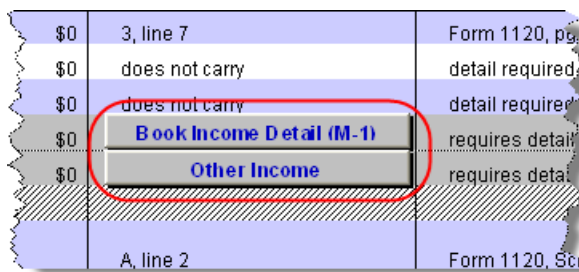


Figure 33: Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 34 shows an example of the "Other Income" worksheet.

Statement Required - Other Income		
Form 1120, page 1, line 10		
Line Description	Amount	Import to:
1 Amount of credit for tax on fuels (Form 4136)	\$0	INC, line 1
2 Interest income on receivables	\$0	INC, line 2
3 Ordinary income from partnerships	\$0	Partnership Income Detail
4 Recoveries of bad debts deducted in earlier years	\$0	INC, line 4
5 Section 481 adjustments	\$0	INC, line 5
6 State tax refund (cash basis)	\$0	INC, line 6
7 Taxable income from insurance proceeds	\$0	INC, line 7
8 Other	\$0	Other Income Detail
Total other income	\$0	

At the bottom of the worksheet, there is a button labeled 'Click to return to TB' circled with a red circle and the number 2. The window title bar at the bottom shows 'Corp TB \ Other Income' circled with a red circle and the number 1.

Figure 34: Trial balance worksheet for "Other Income"

To return to the previous worksheet, click the **TB** tab (labeled “1” in Figure 34), or click the **Return** button above the worksheet tabs (labeled “2” in Figure 34). Note that a detail tab (the “Other Income” tab in Figure 34) might include one or more detail worksheets (labeled “3” in Figure 34).

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 35).

Totals	\$4,547	\$3,974
	OUT OF BALANCE?	\$573
PTR TB		

Figure 35: 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.

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**. For more information on file names in the trial balance program, see “Naming Convention” on page 42.

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 45.

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 36. (See “Naming Convention” on page 42.)

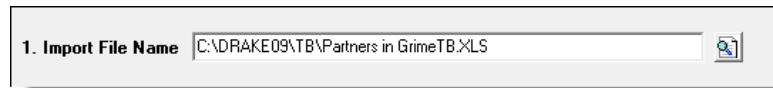


Figure 36: Selected file to import

5. Select the **Trial Balance 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 & other depreciable assets	Accumulated depreciation
Goodwill & other intangible assets	Land
Rental real estate information	Accumulated amortization

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 37 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:
\$420,050		L, line 1, col d	1065, page 5, line 1, col d
\$2		L, line 2a, col c	1065, page 5, line 2a, col c

Figure 37: 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 1-4 describes the most common notes in this column.

Table 1-4: “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 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.
[Form or Schedule] may be required	Non-financial information (such as names of officers for a Schedule E) must be completed in Drake, in addition to the financial data entered in the worksheet.

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 38.

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.

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
Mortgage and real estate loans	\$0		L, line 7, col d	1065, page 5, line 7, 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
Accumulated depreciation		\$0	L, line 9b, col c	1065, page 5, line 9b, col c	optional

Figure 38: 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 39) 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 39).

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 39: 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. Both rental expense items require a trial balance detail worksheet.

Account Title	Debit	Credit	Import to:	Reported on:
Cash	\$0		L, line 1, col d	Form 1120S, Sch L, line 1, col d
Trade and accounts receivable	\$0		L, line 2a, col c	Form 1120S, Sch L, line 2a, col c
Allowance for bad debts		\$0	L, line 2b, col c	Form 1120S, Sch L, line 2a, col c
Tax-exempt interest		\$0	K, line 16a	Sch K, line 16a, Sch M-1, Line 5
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	\$600		Real Estate Rental Exp	requires detail
Gross other rental income		\$0	RENT, line 1	Rent, Line 1
Total other rental expenses	\$0		Other Rental Exp	requires detail
Gross royalties		\$600	K, line 6	Schedule K, line 6
Capital gains or losses	\$0	\$0	does not carry	detail required on Schedule D

Figure 40: 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 40).
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 appeared to import 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. Drake customers can now fill out and e-file certain Forms 3115 and related schedules and attachments for partnership returns. This section provides instructions for completing this form and related schedules and attachments in Drake.

In some cases, Form 3115 must still be paper-filed. See "Parts I and III," starting on page 50, for details.

NOTES

Applicants filing Form 3115 must refer to the Internal Revenue Bulletins (available at www.irs.gov) to determine if the IRS has published an accounting method revenue procedure, revenue ruling, notice, regulation, or other guidance relating to the specific method to be changed. See Pub. 538, Accounting Periods and Methods.

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**.

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 41) 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; see “Screen 311E Multi-form Codes” on page 55 for more information.

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 41, you can access these **3115** screens by clicking a link at the top of any other **3115** screen.

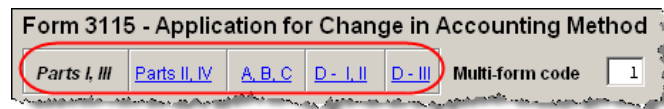


Figure 41: Tab links on **3115** screen

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

Figure 42: Override fields in the **General Information** sections of the **Parts I, III** screen

Part I Not all applicants are eligible to use the automatic change request procedures. 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 43). If the answer is **Yes**, you are stating that:

- The entity would be required to take the entire amount of the section 481(a) adjustment into account in computing taxable income for the year of change.
- Section 4.02(8) of Rev. Proc. 2002-9 applies to the applicant’s accounting method change request, and the applicant is therefore not eligible for a change under automatic change request procedures. (See IRS Form 3115 instructions for details.)

Figure 43: Automatic Change Request information

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. 2006-1 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, answer **Yes** 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. 2003-1 (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 “Attachments,” starting on page 56.

Parts II and IV

Use the **Parts II, IV** screen to complete the following sections of Form 3115:

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

In addition to the **Multi-form code** text box, this screen consists of the **Part II** and **Part IV** sections. All 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. 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) needs to be completed for Part II, line 12.

Schedules A, B, and C

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

- Schedule A, Change in Overall Method of Accounting (screen covers Part 1, Change in Overall Method)
- Schedule B, Change in Reporting 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. In addition, 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 automatically opens, 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 (see Figure 47 on page 56). 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(s) 970 (line **5a**), the attachment must include the following statement:

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

Schedule D, Part III

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

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

Section A

Click the **D3-1 Attachment** link (see Figure 45) to attach a description of the present and proposed methods used to capitalize direct and indirect costs.

Sections B and C

These sections 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 44.)
- **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.
- **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."

are not required by the applicant, or boxes checked, unless those costs are normally intended to be allocated to the product, service, or activity for which the costs are required. Attach an explanation for boxes that are not checked.)

	Present method	Proposed method
1 Direct material	X	N/A
2 Direct labor		N/A
3 Indirect labor	N/A	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

Figure 44: X was selected for column 1, line 1; B was selected for column 1, line 2; nothing has yet been selected for any other line. (See also Figure 45.)

To attach a statement for section **B** or **C**, click the **D3-2 Attachment** link at the top of Section B. (See Figure 45.) A single statement may contain all necessary explanations for sections **B** and **C**.

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

Parts I, III | Parts II, IV | A, B, C | D - I, II | D - III | Multi-form code

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, I/A Selection=I/A

	Present	Proposed
1 Direct material.....	X	
2 Direct labor.....	B	
3 Indirect labor.....		

Figure 45: 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,” starting on page 56.)

If the return contains more than one Form 3115 and multiple instances of Schedule E, both multi-code fields should contain numbers. Figure 46 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 Multi-form code for Sch E

Schedule E - Line 4a

Type of property..... BUILDING

Year property was placed in service..... 2002

Figure 46: 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 47, some lines have attachment links. Click an attachment link to open the **ATT** screen.

Schedule C - Changes Within the LIFO Inventory Method

Part I

1 [C1-a thru C1-h attachments](#) Changing within the LIFO Inventory Method?.....

2 [C1-2 attachment](#) If any present method or submethod is not the same as indicated on Form(s) 970.

3 [C1-3 attachment](#) If the proposed change is not requested for all the LIFO inventory.

4 [C1-4 attachment](#) If the proposed change is not requested for all the LIFO pools.

5 [C1-5 attachment](#) LIFO inventory valued on method other than cost.

6 [C1-6 attachment](#) If changing to the IPIC method.

Part II

1 Change in Pooling Inventories?

Figure 47: 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 Schedule E property (if the return contains more than one Schedule E), or both. (See “Multi-form Codes” on page 49 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 48).

Figure 48: 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 **New Record** 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.

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 49.) 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.pdf
3115, A, I, Line 3	Proposed Change Documents	SchAPartIProfitLossStatements.pdf

Figure 49: Example of an EF Attachments worksheet

Notices of Missing Attachments

In addition to Form 3115 and related schedules and statements, the program produces EF message pages (as applicable) when the return is calculated. All forms, schedules, EF message pages, 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: Trial Balance Import

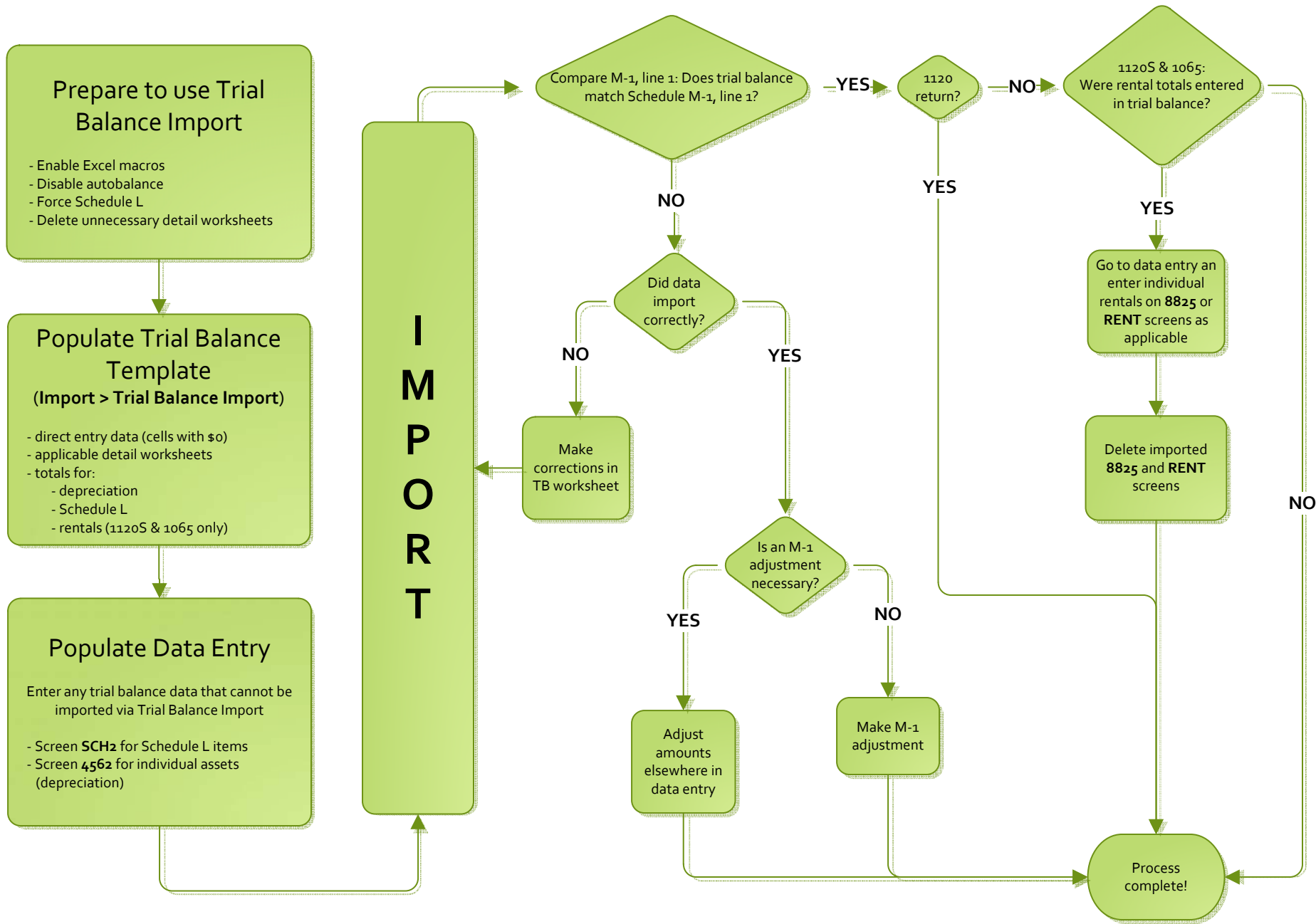
The trial balance import allows data to be imported into a corporate tax return from a trial balance worksheet.

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



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