

Drake Data Entry Notes

Federal Screens

Name and Address Screen 1

Firm: 1 – Braintree HGA
2 – Norwood HGA
3- Norwood TaxSense
4- Braintree TaxSense
6- Omega TaxSense
7- Plymouth HGA
8 – Plymouth HGA (no mailings)

Preparer: Number for person who will be **signing** return (entering their PIN)

Data Entry: Number of person who is *entering* the data (can be the same as preparer)

ERO: Same as Preparer number

Misc Code 1: Preparer responsible for return (*often* signing preparer). Select from the list

Miscellaneous Code 2

This code is used to note any exceptions to the return filing or status. Choose from drop-down list as applies (ex. under filing limit, MFS, paper file, etc)

There is a link to the Health Care Screen (HC) under the taxpayer email data field.

If taxpayer has no foreign accounts, then check the “No” box on the lower right side of screen, If taxpayer has any foreign accounts, complete the Foreign Accounts screen.

Answer yes or no to foreign account or foreign trust questions as appropriate. See Foreign Bank Account Reporting Cheat Sheet..

Direct Deposit Screen (DD)

Federal Selection – Yes

State City Selection – A (All DD eligible states). If state selection is not made, then Federal will be Direct Deposit and state will mail check.

W-2 Screen

Note “Additional Entries” hyperlink (blue-top of screen) will access 4 additional data entry lines for 12 and 14 and **10 additional states!**

Check Codes on Box 10, Box 12, and Box 14.

If entry in Box 10 (DCAP) need to enter info for child care expenses (DEP and 2441) or amount in box 10 will be added to taxable wages!

If Box 12 has a code W, then need to go to 8889 and select T or S and answer question 1 for coverage type. See page 2 for 8889 Health Savings Distribution.

For state or local government employees, Box 14 retirement contributions code needs to be entered as MAPEN in order to calculate the state deduction for retirement contributions. See MA W-2 instructions for details on Box 14 codes.

For Rhode Island W-2’s check box 14 for RI SDI. Enter TDI instead of RI SDI, so this tax will flow to schedule A. Also, check MA schedule Z if Mass resident, to ensure the SDI amount is calculated in the taxes paid to other states.

Some W-2’s will have a 16 digit verification code. Enter on bottom of W-2 screen if applicable.

INT Screen

If client is MA resident and bank interest is from a bank within Massachusetts, need to reenter interest amount in State Specific Info section, select MA from drop down box and enter amount.

Schedule A Mortgage Interest Deduction

If the client did not receive a Form 1098 for mortgage interest, or Form 1098 is reported under a different SSN, then do not enter amount on line 10, but use line 11. Enter Name & address and report taxpayers portion of mortgage interest. This would apply for unmarried homeowners, MFS returns (use line 10 for spouse with SSN on 1098 and line 11 for other spouse) as well as private mortgages.

Schedule A/ 2106 Employee Business Expenses Screens

There are difference between Employee Business Expenses allowed for Federal and State deductions. Massachusetts allows all 2106 expenses to be deducted for Outside Salespeople only. For other employees, only certain expenses are deductible: travel, meals and lodgings while away from home or transportation expenses incurred performing their job.

Unless the employee is an outside salesperson, the only lines that can be filled out on 2106 are 2a – Parking, 3a- Travel, 5b- Meals, and Vehicle/Mileage information. Any “other” expenses, work related courses, use of cell-phone, etc, must be entered on Schedule A, Line 21 Unreimbursed Employee Expenses. When entered directly on the Schedule A screen, the expenses do not carry to the Massachusetts return.

Form 8889 Health Savings Account

When a 1099-SA is received go to 8889 screen. Employer Contributions are reported on W-2, box 12, code W and are carried automatically to Form 8889 (do not enter here or contributions will be duplicated). Line 15 must be filled out or distribution will be taxable, so enter amount paid for unreimbursed medical expenses on line 15. Generally the amount is the same as line 14a, Total Distributions, but not always, so confirm amount with client

Schedule D/ Form 8949

Sales of capital assets can be entered on either screen in grid or detail view. Form 8949 requires information on whether the cost basis was reported on the 1099-B or by the client. The default is cost basis reported on line 3 of the 1099-B. If the cost basis is not on the 1099-B, but supplied by the client, enter code B. If the sale is not listed on a 1099-B, enter code C. In grid entry this is the 1099-B field. In detail entry, this is the Other 8949 Information field.

If all sales are a code A on the 1099B (basis reported to the IRS) then the total sales and cost basis amounts can be entered on Screen D2 lines 1a and 8a, respectively, for short and long term sales.

8283 Noncash Charitable Contributions

Macros are set up for the 4 most common charitable organizations as well as contribution information.

- In the Donee Organization field, right-click and select Macros. Select appropriate organization and press Execute. Organization and Address fields will autofill.
- In the Property Description field, right-click and select Macros again. Select Clothing line and press Execute and the next 4 fields will autofill.
- Enter date of purchase, or for a group of items, enter average date (from client)
- Donated Value (deduction claimed) is listed in “Fair Market Value”.

ACA Health Care (Federal)

- **HC** – general health coverage information. For clients with full-year coverage through work or government plans (Medicaid, Medicare, VA, etc.) check box for Yes full time coverage and reporting is complete.
- **95A** – Marketplace Statement - record information from Health Insurance Marketplace statement for insurance purchased through the marketplace. **All numbers from each column must be entered to calculate credit correctly!**
- **8962** – Premium Tax Credit - claim Premium Tax Credit and reconcile advance PTC payment (may have additional credit or need to pay back some of credit depending if income changed from what was listed when buying policy).
- **8965** – Health Coverage Exemptions - For reporting exemptions from purchasing health care coverage or calculating the resulting penalty for lack of coverage.

8863 – Education Credits

- Tuition information can now be entered in one box and the different education benefits are calculated by selecting the appropriate box. Occasionally the Tuition & Fees deduction can be better than Lifetime Learning Credit (Check if expenses under \$5k).
- Scholarships and 529 distributions are now entered in their own box instead of doing a worksheet.

FAFS – FAFSA Worksheet

- If client is parent of college student or high school junior/senior, print FAFSA worksheet as part of the return. Select the FAFS screen and check the appropriate box whether the return being worked on is the parent or student.

Schedule C-

- Search for business code using Ctrl-Shift-S
- Make sure to answer any questions that apply –1099 question should always be answered. Second question does not need to be answered if first question is no.
- Taxpayer disposed of business question has moved to the bottom of the screen.

SEP – Self-Employed Retirement Plan

- To calculate max SEP contribution, go to SEP screen and enter 0.25 for plan contribution rate. Calculate the return and note the SEP deduction amount on line 28.
- Add note in Drake with max SEP amount and will client make full contribution.
- Contact needs to be contacted to see if they will make full, partial, or no contribution.
- If client will not make full contribution, delete SEP screen and enter contribution amount in Adjustments (screen 4, line 28).

Schedule E

- Income and Expense screens have been split – note hyperlink at top of screen for expenses.
- If property is not in the home state, make sure to enter the state abbreviation in ST field.
- Enter days property was rented (or available for rent) in line 2

Massachusetts Screens

General – enter 0 for sales tax on out of state purchases unless amount given by client (see Mass section on tax questions).

PEN – Underpayment Penalty (Other tab)

Select T, S, or J in top box to ensure Massachusetts underpayment penalty calculates correctly

HC Health Care Information

Note: If spouses have different information, then separate HC pages need to be filled out. Page down for new HC screen.

- For existing clients, prior year information will carry over. Check to make sure information is still valid.
- For new clients, the 6 most common carriers in Massachusetts are set up as Macros. Right-click in “Federal ID Number of Insurance” and select “Macros”. Select carrier from list and FID and Insurance Co will autofill.
- For government programs, FID and name is not needed, just put a check in the appropriate box.

Override Fields

Any fields with a blue +/- preceding the field will add (or subtract) the entered amount to data entered from other fields. Generally leave these fields alone as data is entered elsewhere, and this is an adjustment. The exception is when a client itemizes and had a state balance due the prior year. The balance due amount is entered on A in the Income tax +/- field.

Any fields with a red = preceding it is an override field for a value that is calculated by the software. Entering amounts in this field will override (ignore) data entered elsewhere in the return. Use these fields with extreme caution!

Data Entry Field Flags

Green Fields are “Flagged” and the flag must be removed or it generates an error and does not allow e-filing until cleared. In the Calculation Results window, the error is listed as an unverified field. Double-click on the line and the Drake jumps to that screen and field. To remove the flag, type in the number, or press F4 in the field to remove the flag. To flag a field, press F2.

Drake help

Field help- Press F1 in any field to get specific field help

Screen help – Available for most screens -Right-click on a grey space on the screen and select Screen help for general information relating to the whole screen.

Tax Research – Icon to the Tax Library on the main Toolbar

Short-cuts

In detail mode, **page down** to go to next screen (i.e. 3 W-2 screens)

To switch between detail and grid mode, press **F3** (function key - top row of keyboard)

Look Back-

Press F11 (or right click) and field that were filled in last year will be highlighted. This is especially helpful in Schedule C and Schedule E.

Press F12 (or right click) to see prior year numbers in fields.

E-Collect Screen (EPS)

Note: A copy of taxpayer (and spouse) ID is needed for all bank products. Enter on IDS screen.

For direct deposit: Default is for federal refund to go through eCollect process- state can be added for a \$5 additional fee. A better option is to use e-collect for federal and direct deposit for state. Leave state product field blank on EPS. On direct deposit screen, enter N for Federal and A for state. CAUTION: If federal field is incorrectly entered, then direct deposit will override eCollect.

To verify refund and payment options are correct, calculate the return and check “payment option” field.

Education Credits and Tuition & Fees Deduction TY 2016

Education credits are based on education expenses paid for the taxpayer, spouse, or dependents (must claim exemption for dependent). Taxpayers whose AGI is too high to take the credits, may qualify for the Tuition and Fees Deduction.

Eligible expenses are Tuition and fees (not room and board) are reported by the institution in Form 1098-T. Scholarships, grants and withdrawals from 529 plans must be deducted from eligible expenses.

	Hope Credit	American Opportunity Credit <small>(Expanded Hope Credit)</small>	Lifetime Learning Credit	Tuition and Fees Deduction
Eligibility	Can be taken only 2 times per student (freshman & sophomore years)	Available 2009-2017 First through Fourth years of college – 4 years only	Unlimited years per student	Unlimited years per student)
Eligible student	Must be enrolled at least half-time in a post-secondary degree or certificate program	Must be enrolled at least half-time in a post-secondary degree or certificate program	All years at post-secondary institution and courses to acquire or improve job skills	Has expenses for an eligible post-secondary institution.
Maximum credit	\$1,800 per eligible student	\$2500 per eligible student	\$2,000 per return, regardless of the number of eligible students	Up to \$4,000 per return regardless of the number of eligible students
Calculation	100% of 1 st \$1,200, 50% of next \$1,200	100% of 1 st \$2000* 25% of next \$2000*	20% of expenses up to \$10,000	Expenses up to \$4,000 depending on AGI
Other	Credit may not be claimed for any student with a felony drug conviction	*Includes course materials -Can't combine w/ Hope -Student must not have felony drug conviction	Does not apply	Does not apply
Effect on Taxes	Credit - Dollar for dollar reduction of taxes due	Credit - Dollar for dollar reduction of taxes due, 40% is refundable	Credit - Dollar for dollar reduction of taxes due	Deduction – reduces taxable income
AGI limits	Phased out between \$50,000 - \$60,000 for single or HOH \$100,000 - \$120,000 MFJ	Phased out between \$80,000 - \$90,000 for single or HOH \$160,000 - \$180,000 MFJ	Phased out between \$50,000 - \$60,000 for single or HOH \$100,000 - \$120,000 MFJ	Higher AGI limit than credits – take deduction if AGI is too high for credits

- Can only claim one credit or deduction per student. (even if expenses exceed limit of credit)
- For more than one student, each can take the appropriate credit or deduction
- Activity fees and books only count as eligible expenses if they are paid to the university as a condition of enrollment.
- No credit or deduction allowed if filing status is Married filing Separate.

Federal vs State Differences

Income	Federal	MA
U.S. Obligations (Treasury Notes, Bonds)	Taxable	Exempt
State & Local Obligations (non-MA)	Exempt	Taxable
State & Local Obligations (MA)	Exempt	Exempt
U.S. Government Pension	Taxable	Exempt
State & Local Pension (MA)	Taxable	Exempt
State & Local Obligations (non-MA)	Taxable	varies by state
Traditional IRA Distributions	Taxable	Exempt until contribution amount reached , then taxable
Deductions		
Itemized Deductions	Allowed	Not Allowed
Rent Deduction	Not Allowed	Allowed
Septic Replacement Costs	Not Allowed	Allowed
FastLane & MBTA Costs	Not Allowed	Allowed
Gambling Losses	Allowed up to Winnings	Not Allowed
Credits		
Circuit Breaker Credit	Not Allowed	Allowed
Lead Abatement Credit	Not Allowed	Allowed
Other		
MA State Tax Balance Due/Refund	Carry to Federal	N/A
Capital Loss Carry-over (per year)	\$3,000	\$1,000
Net Operating Loss Carryover (NOL)	Allowed	Not Allowed
Passive Activity Loss Carry-over (PAL)	Allowed	Limited

Circuit Breaker

Specific Items Included in Total Income Calculation (included, but not limited to):

Schedule CB Worksheets - Income Added Back:

- **Estate income**, CB Worksheet, various - earned income from an estate, e.g. the estate is in probate, or cannot be settled due to a pending lawsuit; any interest income earned from funds left in the account, or rental income earned from rental property that is part of the estate is included. Generally this income is reported to beneficiaries on K-1,
- **Gains included** in U.S. Schedule D (not including losses), CB Worksheet, Part 3., Lines 12 -17;
- **Interest Income** from U.S. and Massachusetts government bonds, notes and bills, CB Worksheet, Part 2., Line 8.

Schedule CB:

- **Cash Public Assistance**, Schedule CB, Line 6 - including food stamps and welfare, as well as any other payments received from a government or quasi-governmental agency such as emergency rental assistance due to a fire. Cash public assistance also includes:
 - **Fuel assistance**, if paid directly to the taxpayer, e.g., a one-time emergency check to fill a tank is included. However, if the assistance is paid through a discounted rate program (3rd party beneficiary and individual's income qualifies for below market rates) the payment is generally considered in-kind assistance and is excluded from the income calculation.
- **Disability income**, Schedule CB, Line 6 - if paid in lieu of wages;
- **Food stamps** (see cash public assistance above);
- **Gains from sale of personal residence under the \$250,000/\$500,000**, Schedule CB, Line 6;
- **Gifts**, Schedule CB, Line 6;
- **Massachusetts and U.S. Government Contributory and Military Noncontributory Pensions**, Schedule CB, Line 5;
- **Previously Taxed income distributions from IRA/Keogh, Annuity, Stock Bonus, Pension, Profit Sharing Plan**, Schedule CB Line 5;
- **Return of Capital**, Schedule CB, Line 6 - e.g. sale of stock: cost = \$100, Selling Price = \$500, gain = \$400. Gain of \$400 is reported as capital gain, and return of capital of \$100 is added back in Line 6, Schedule CB.
- **Sick Pay**, Schedule CB, Line 6 - if paid in lieu of wages;
- **Social Security Benefits received**, Schedule CB, Line 4 - which include retirement, disability, dependent, survivorship and insurance. Medicare premiums withheld from SS checks (Form 1099 SA) may **not** be subtracted out.

- **Medicare and Medicaid payments** are not added back since they are part of an insurance program. Usually the individual has paid premiums into these programs during their working years. The "Total Income" calculation in the instruction booklet, Line 4, Total Social Security Payments Received, erroneously states that Medicare is included
- **Welfare (see cash public assistance above)**
- **Workers Compensation**, Schedule CB, Line 6.

Specific Items Excluded from Calculation of Total Income:

- **Estates** - one time distributions that have been probated are not included since they are not part of federal gross income;
- **Life Insurance Policies** - Proceeds payments are not included since they are not part of federal gross income (U.S. Form 712);
- **Losses included in U.S. Schedule D;**
- **Net worth of assets**, accumulated earnings in an account i.e., deferred compensation, IRA, etc.;
- **Payments, in-kind payments, or monies received** that are otherwise not defined as wages, payments in lieu of wages, income, other income, return of capital, or gross receipts;
- **U.S. Series E and Series EE bonds** - these bonds are considered investment bonds and do not earn interest each year. Instead, the income is recognized federally only at the time the bond matures and the holder cashes it in. Years prior to maturity, there would be no income.

Note: For Schedules C and E, the net profit or loss amount = Massachusetts AGI. The only addback for purposes of calculating "total income" would be any return of capital.

"Total Income" Less: Certain Exemptions and Deductions:

This total income figure is also reduced by certain exemptions that are allowed for taxpayers who are at least age 65 by the end of the tax year, for dependents and for blindness, as well as certain deductions reported on Massachusetts Schedule Y, Lines 1 through 10.

Depreciation - Form 4562

Depreciation is used for business expenses and equipment that have a useful life of more than 1 year. The expense is divided among the number of years the asset is expected to last which is known as class life.

Real Estate:

Building and land must be separated because only the value of the building can be depreciated. Depreciation for single family residences is generally part of the indirect expenses for the home office deduction.

Property Type	Building	Land	Class Life	Depreciation Method
Single Family Residence (Home office)	70%	30%	39 yrs	Building – ARR Land - NDA
Residential <i>Rental</i> Property Single Family Condo	70% 80%	30% 20%	27.5 yrs	Building – ARR Land - NDA
Rental Closing Costs			27.5 yrs	M
Improvements (addition, new roof, heating system, etc)			Residence -39 yrs Rental 27.5 yrs.	M M
Refinance Costs			Life of Loan yrs.	AMT

For example, a single family residence with a purchase price of \$420,000, the depreciation schedule is:

Asset	Cost	Method	Class Life	Date in Service
Building	294,000 (70% of 420,000)	M	39	date home first used for business
Land	126,000 (30% of 420,000)	NDA	none	

For a rental property with the same cost of \$420,000, the depreciation schedule would be:

Asset	Cost	Method	Class Life	Date in Service
Building	336,000 (80% of 420,000)	ARR	27.5	purchase date
Land	84,000 (20% of 420,000)	NDA	none	
Closing Costs	100% from HUD	M	27.5	purchase date

Equipment:

For depreciating equipment, the class life depends on the asset (see J.K. Lasser for complete list). Two common items are computers, which have a 5 year class life, and office furniture, which has a 7 year class life. The method is always M. Note that only business expenses can be deducted. If a computer is purchased and used 50% for business and 50% for personal use, then only the business portion can be depreciated.

Asset	Cost	Method	Class Life	Date in Service	Sect. 179 bonus
Computer	950	M	5	purchase date	950
Office Furniture	625	M	7	purchase date	625

Section 179 bonus allows business owners to take full equipment depreciation in a single year up to \$500,000 (for 2013) as long as it does not exceed business income. Section 179 does not apply to rental property.

Foreign Bank Account Reporting

There are **3 levels** of reporting based on account balances.

Foreign Accounts with:

1. **Balance less than \$10k** for entire year – Complete Foreign Bank Questions
-link to Foreign Account Questions on Name and Address Screen
-Answer Questions first part of 7a and 8
2. **Balance \$10k or more** at any point during calendar year – **#1 plus** Complete Foreign Bank Reporting FinCen Form 114 (Formerly FBAR) – this is filed separate from tax return, but filing must be indicated on foreign account questions screen in Drake. Answer both parts of 7a, and question 8

New for 2016: Foreign bank account reporting deadline is now APRIL 15th (previously June 30th)

Taxpayer can complete the form online, or we can complete (additional fee). If TaxSense submits return electronically, taxpayer must sign efile authorization FinCen Form 114A.

Web site for filing is <http://bsaefiling.fincen.treas.gov>.

3. **Balance \$50k** or more on the last day of the calendar year (or greater than \$75k at any point during the calendar year) **#1 plus #2 plus** Complete Form 8938 in tax return.
Form 8938- Enter income in Part III as well as any tax credits or deductions related to that income.
Note that the income must first be entered on the appropriate Schedule (B for interest, D for gains)
Form 8938 only reports what income on the return is from foreign sources, it does NOT flow to return

MFJ returns limits raised to **\$100k** on the last day of the calendar year (or greater than \$150k at any point during the calendar year)

US Citizens living abroad and meet physical presence or bona fide presence test – filing limits raised to \$200k last day of year (\$300k any time) for single and \$400k last day (\$600k any time) for MFJ