



1065 CASE STUDY FACTS

FOR TAX YEAR 2024

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1065 DALLAS PARTNERS CASE STUDY FACTS (CASDPM)

Dallas Partners is in the wholesale business and does all of its business in New York. The partnership has ten partners, all residing in New York.

TARGETED AREAS

- Charitable contributions
- Depreciation overrides
- Journal entries
- Sale of asset
- Importing the partner information
- Foreign taxes
- Transfer of interest
- Partner footnote
- Cash distributions
- Partnership/Partner Letters
- Special allocations
- New York partnership return

USING 1065

- [Verifying the Partner Information \(page 2\)](#)
- [Changing Partner Information \(page 4\)](#)
- [Common Partner Information \(page 4\)](#)
- [Transfer of Interest \(page 4\)](#)

- [Partner Footnote \(page 5\)](#)
- [Special Allocations \(page 5\)](#)
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- [Enabling Allocations to Schedule K-1 \(page 11\)](#)
- [Reviewing the Return \(page 24\)](#)

DATA ENTRY

Verifying the Partner Information

1. Select **Quick Track > Partner Information**.

OR

Select **Partner Information > Partner by Partner Data**. Click the name of the partner to be viewed.

2. Select a sample of partners and verify that the information imported correctly.



The partners can be reviewed in a columnar format by selecting **Quick Track > Columnar Partner Info** or **Partner Information > Partner by Partner Data > Columnar Partner Entry**.

#	NAME	TYPE OF PARTNER	EIN	ADDRESS	PROFIT/LOSS RATIO	BEGINNING CAPITAL
1	Jeff Scott	General Passive	111-11-1111	426 Oak Street Albany, NY 06111	20%	1,800,000
2	Reynolds Co. S Corp.	General Active	222-22-2222	766 First Street Albany, NY 06111	10%	1,000,000
3	Andrew Hale	Limited Passive	333-33-3333	9 Willis Street Albany, NY 06111	10%	1,000,000
4	Larry Moore	Limited Passive	444-44-4444	2222 South Drive Albany, NY 06111	5%	800,000
5	Kevin Price	Limited Passive	555-55-5555	321 Wayside Albany, NY 06111	10%	900,000
6	Jim Goodwin	Limited Passive	666-66-6666	766 First Street Albany, NY 06111	5%	500,000
7	John Smith	Limited Passive	777-77-7777	100 Main Street Albany, NY 06111	5%	500,000
8	Mary Jones	Limited Passive	888-88-8888	311 South Street Albany, NY 06111	5%	600,000
9	Stewart Co. S Corp.	General Active	999-99-9999	5000 Clark Street Albany, NY 06111	20%	2,000,000

#	NAME	TYPE OF PARTNER	EIN	ADDRESS	PROFIT/LOSS RATIO	BEGINNING CAPITAL
10	Wayne Brown	Limited Passive	101-10-1010	701 Griffith Drive Albany, NY 06111	10%	900,000

Changing Partner Information

Andrew Hale changed from a limited partner to a general partner. Andrew Hale's partner information needs to be updated.

1. Scroll down to **Partner Type** where the system default is set to *Limited*. Andrew is now a general partner.
2. Under **Partner Override**, click the down arrow and select **General**.

Common Partner Information

Along with entering partner information individually, you may select options that apply to all partners in the return.

1. Access **Partner Information > Common Partner Data** to review these options.
2. Select the **Common Partner Information** tab.
3. Scroll down to the section entitled **Federal Form 1065 Sch K-1 Only - Miscellaneous Partner Options**.
4. Check the box **Treat individual general partners as passive for the Analysis of Net Income (Loss)**.
5. Leave the box for **Treat individuals limited partners as active for the Analysis of Net Income (Loss)** checked.
6. Under the **Contributions/Distributions** tab, enter a date for the **Cash Distribution of 09/01/2024**.

Transfer of Interest

On June 30, 2024, Jeff Scott (partner #1) transferred half of his 20% partnership interest to Reynolds Co. (partner #2). Record the transfer of interest through the Organizer window:

1. Select **Quick Track > Transfer of Interest**.

OR

Select **Partner Information > Transfer of Interest > Transfers > Add New Transfer Date**.

2. Enter **06/30/2024** and press **Enter**.
3. Enter **Partner number 1** in the **Transferring Partner Number** field.
4. Enter **Partner number 2** in the **Receiving Partner Number** field.
5. Enter **.50** in the ratio column, not **.10**.

Partner Footnote

1. Select **Partner Information > Partner Footnotes > Without Amounts > Add new Footnote Number**.
2. Enter a number for the footnote, up to four digits.
3. Select **Both Federal and State** as the attachment option.
4. Enter the following text in the **Footnote Detail** area:

PLEASE CONSULT YOUR TAX ADVISOR WHEN FILING YOUR TAX RETURN TO ASSURE PROPER INCLUSION OF THE AMOUNTS LISTED ON YOUR SCHEDULE K-1.

Special Allocations

The partner import included Special Allocation amounts for Cash Distribution (WD), SEP Contribution (DC), and Guaranteed Payment (GP). The cash distribution was paid on **09/01/2024**.

PARTNER	WD	DC	GP
Jeff Scott	1,247,000	72,825	
Reynolds Co.			22,000
Andrew Hale	1,247,000	72,825	

PARTNER	WD	DC	GP
Larry Moore			105,000
Kevin Price	936,000	55,000	
Jim Goodwin	936,000	55,000	
John Smith	1,269,000	54,237	
Mary Jones	600,800	54,238	
Stewart Co.			25,000
Wayne Brown			20,000

1. Verify that the special allocation data imported correctly. Select **Partner Information > Allocations > Special Allocations**.
2. Select each two-digit allocation code and review.
3. Apply the special allocation for Cash Distribution. Select **Partner Information > Common Partner Data > Contributions/Distributions**.
4. Verify the distribution date of **09/01/2024** and verify the total amount under the **Cash Distributions** column.
5. Enter the special allocation code **WD** in the **Alloc Code** field to the right of the amount.
6. Apply the special allocation for SEP Contribution. Select **Quick Track > Page 4, Deductions**.

OR

Select **Sch K > Deduction Summary**.

7. Verify the total amount on the line **Payment for partners to a SEP**.
8. Enter special allocation code **DC** in the **Alloc Code** field to the right of the amount.
9. Apply the special allocation for Guaranteed Payment. Select **Quick Track > Page 4, Income**.

10. Enter the special allocation code **GP** in the **Alloc Code** field for the line Guaranteed Payments carrying to Schedule M-1. This amount will come from other input.

Nonrecourse Liabilities

Special allocation codes need to be created for Nonrecourse Liabilities and Cash Contributions.

Nonrecourse liabilities of \$1,000 are to be specially allocated. Allocate the first **\$100** to **Jeff Scott** with the remaining **\$900** to be allocated prorata among all of the partners.

1. To specially allocate this item, select **Partner Information > Allocations > Special Allocations > Add New Special Allocation Code**.
2. Enter a two-character alphanumeric special allocation code. This code must be two characters and **NOT** begin with a zero. This is a **required** entry.
3. Enter a description for the code, such as **Nonrecourse Liabilities**.
4. Select **Residual** in the **Allocation method** as the method to allocate the residual.
5. Tab to the **Amounts** column for partner 1, and enter **\$100**.
6. The area used to enter information about partnership liabilities may be accessed in two ways. Select **Balance Sheet and Reconciliation > Sch L > Liabilities Allocation**.

OR

Select **Common Partner Data > Liabilities Allocable**.

7. In the **Nonrecourse Liabilities** field, enter **\$1,000** in the **Total Amount (Override)** column.
8. Enter the two-character alphanumeric special allocation code established above for Nonrecourse Liabilities in the **Alloc. Code** field.

Cash Contribution

Dallas Partners contributed **\$1,500** to United Way. The contribution is to be specially allocated, with \$500 going to Reynolds Co. and the remainder allocated to other partners using the residual method.

1. Select **Partner Information > Allocations > Special Allocations > Add New Special Allocation Code**.
2. Enter the two-character special allocation code.

3. Enter **Charitable Contributions** as the description.



The same allocation code may be used for multiple allocations if the percentages, amounts and methods are the same for each allocation. Since we are going to use the residual allocation method for the remainder of charitable contributions, we must create a new special allocation code.

4. To allocate the first \$500 to Reynolds Co and the remainder to the other partners, use the residual method. Enter **\$500** in the amount column on the line for **Reynolds Co**.

5. Select **Sch K > Deductions Summary**.

6. Click the **Charitable Contributions Detail-Cash** tab.

7. Enter **\$1,500** contribution to **United Way** under **50% Contributions**.

8. Enter the special allocation code designated above for contributions in the **Alloc. Code** column under **Contributions for Cash: 50%**.

Ordinary Income - Depreciation

Select **Ordinary Income and Deductions > Depreciation and Amortization > Dallas Partners > 4562 Information > 4562 Overrides**.

Enter the following information on the appropriate lines.

	BASIS	RECOV.	CONV.	METHOD	CURRENT YR. DEPR.
5 year	9,000,000	5.00	HY	200DB	1,800,000
7 year	3,000,000	7.00	HY	200DB	428,700

	DATE IN SERVICE	BASIS	
Nonres. rent	09/01/2024	10,000,000	74,900

MACRS deduction for assets prior to 2024: **1,615,300**

Other Schedule K Data Entry Items

1. Select **Schedule K > Income Summary > Income-Miscellaneous** tab.
2. Enter **\$1,500** for **Miscellaneous Income**.
3. Select **Schedule K > Alternative Minimum Tax Items**.
4. Enter **-1,243,101** on Line 17a, **Post-1096 depreciation adjustment**.
5. Select **Schedule K > Foreign Taxes**.
6. Enter **Germany** as the foreign country.
7. Enter on **Line 16f Foreign gross income at the partnership level: General Limitation 535,000**.
8. Enter on **Line 16k Deductions allocated and apportioned at the partnership level: 428,000**.
9. Verify **Line 16l(1) Total Foreign Taxes Paid: 80,000**.

Sale of Business Property

1. Select **Quick Track > Schedule D/Form 4797 Sales of Business Property**.

OR

Select **Gains and Losses > Sale of Business Property > Property Descriptions > Add new Description of Property**.

2. Enter **Machinery & Equip.** as the description and click **OK**.
3. Select as **Type of property: 1245 property**.
4. Enter the **date acquired: 01/01/2002**.
5. Enter the **date sold: 08/01/2024**.
6. Enter the **Gross Sales Price: 50,000**.
7. Enter the **cost or other basis: 2,000,000**.
8. Enter the **accumulated depreciation: 2,000,000**.

Transmittal Letters

Generate transmittal letters and filing instructions, stating where the partnership's return will be filed. (Cincinnati, Ogden, and Philadelphia are the available options). Partner letters should also be generated.

1. Select **Quick Track > Letters**.

OR

Select **Letters and Filing Instructions > General Options**.

2. Select **Separate Transmittal Letters and Filing Instructions** in the **Select Which Letters You Wish to Print** section.
3. Verify that the **Auto Selected Center** is correct.
4. Verify that **New York** is indicated in the **State Postal Code** section.
5. Select **Partner Letter Options**.
6. Click the check box to the left of **Print partner letters** to print the letters.

New York Partnership

1. To add New York to the return, select **States > State and City Activation**.
2. Check the box in the **State Activation** column next to **New York**.
3. Select **Compute > Full Recompute**.

Completing the 1065 Computations and Reviewing the Return

1. Select **Compute > Full Recompute**.
2. When completed, review Form 1065, Schedule K, and all activity amounts.

Enabling Allocations to Schedule K-1

1. Once you are satisfied with the results on the federal form screens, select **Options > Partner Allocation**.
2. Select **Compute > Full Recompute**. When complete, review K-1 data by selecting the **Tax Forms** tab to view each partner's K-1.

1065 TOP PARTNERSHIP CASE STUDY FACTS (CASTPM)

Taylor, Olson, and Penn are general partners in TOP Partnership, which files its Form 1065 at the Ogden, Utah IRS Center. All partners actively participate. Olson is the Tax Matters Partner. The partnership agreement states that all items are allocated among the partners according to their effective ratios except for capital contributions which are specially allocated to the partners. Two changes in ownership and one cash distribution occurred during the year. TOP received a K-1 from another partnership, Amos Partners, in which TOP Partnership holds an interest.

TARGETED AREAS

- Distributions
- Transfer of interest
- Flow-through entity
- Special allocations
- Purchase of assets

RETURN INFORMATION

- [Basic Information \(page 14\)](#)
- [Distribution \(page 14\)](#)
- [Transfers of Interest \(page 15\)](#)
- [Purchase of Assets \(page 15\)](#)
- [Investment in Another Partnership \(page 15\)](#)
- [Schedule K-1 from Amos Partnership \(page 16\)](#)
- [Income \(page 16\)](#)
- [Expenses related to Portfolio Income \(page 16\)](#)
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- [Balance Sheet \(page 16\)](#)
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DATA ENTRY

- [General Information \(page 17\)](#)
 - [Setting Partnership Options and Defaults \(page 18\)](#)
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- [Reviewing the Return \(page 24\)](#)

RETURN INFORMATION

Some data is already entered for you. Use the [Data Entry \(page 17\)](#) section for instructions and hints on entering any data you are unsure how to enter. You should verify all the information when it has changed or is missing based on the information in these facts.

Basic Information

1. Select **Organizer > General Information > Basic Return Information**.
2. Enter the following partnership information:

NAME	TOP Partnership
ADDRESS	23 Oak Street Dallas, TX 75244
PRINCIPAL BUSINESS ACTIVITY	Training
PRODUCT OR SERVICE	Training
PRINCIPAL BUSINESS CODE	611000
EIN	55-5555555
DATE BUSINESS STARTED	06/30/1994

3. Enter the following partner information:

#	NAME	ADDRESS	SSN	BEGINNING CAPITAL	PROFIT/LOSS RATIO
1	T. Taylor	1010 First Street Dallas, TX 75244	100-00-0000	\$100,000	50%
2	O. Olson	2020 Second Street Dallas, TX 75244	200-00-0000	\$ 80,000	40%
2	P. Penn	3030 Third Street Dallas, TX 75244	300-00-0000	\$ 20,000	10%

Distribution

On **2/28/2024**, the following distribution of **\$1,000** was made:

T. TAYLOR	\$500
O. OLSON	\$400
P. PENN	\$100

Transfers of Interest

On **3/31/2024**, **T. Taylor** transferred **half** of his interest in TOP to **O. Olson**.

On **11/30/2024**, **P. Penn** withdrew from the partnership, selling his remaining interest to **T. Taylor** and **O. Olson** pro rata.

Purchase of Assets

On **01/01/2024**, the partnership purchased assets for general use. These are recorded as follows:

DESCRIPTION OF ASSET	Various Assets
LIFE	20 years
COST OF ASSETS	\$45,562
DEPRECIATION METHOD	20 YR MACRS

Investment in Another Partnership

NAME	Amos Partnership Dallas, TX
ACTIVITY #	1
PARTNERSHIP ID NUMBER	90-9999999

Schedule K-1 from Amos Partnership

LINE 3: OTHER RENTAL INCOME (LOSS)	(\$7,000)
LINE 5: OTHER INTEREST INCOME	\$2,000
LINE 17B: ADJUSTED GAIN (LOSS)	\$ 300

Income

Interest income, First Bank: \$14,000

Expenses related to Portfolio Income

Expenses: \$ 600

Capital Contributions

- Allocate the first **10%** to **Olson** with the **remainder** being allocated using the **residual** method.
- Cash contribution of \$1,500 on 06/30/2024**

Balance Sheet

	BEGINNING	ENDING
CASH, FIRST BANK	20,000	28,900
INVESTMENTS	180,000	177,000
BUILDINGS AND OTHER DEPR ASSETS		45,562

	BEGINNING	ENDING
LESS ACCUMULATED DEPR		1,709
TOTAL ASSETS*	200,000	249,753

*Let the system calculate and enter these amounts.

Transmittal Letter

The TOP Partnership return will be filed in **Ogden, UT**. Generate a transmittal letter and partner letters. Your name and title should appear on the transmittal letter.

DATA ENTRY

This page is used to provide help when you are not sure where to enter data. You do not need this page if you know where all the information belongs.

Forms are accessed from the **Forms List** window at the left of the screen. Make sure **Organizer** is selected.

General Information

Review the entered data and input remaining amounts through the Organizer.

Set the system to automatically compute by selecting **Compute > Auto Compute**. Turn it off while doing data entry but periodically allow the system to calculate and clear the holding file.

Two levels of compute are available in the 1065 system.

- The system computes the 1065 and all related schedules except Schedule K-1 in the first compute. You can then review the 1065 and verify that all amounts, including Schedule K totals, are correct.
- The second level of compute allocates the amounts on Schedule K among the partners and all Schedules K-1 are completed. Turn this second level on and off by selecting **Options** from the menu bar and clicking **Partner Allocation**. When a check mark is next to **Partner Allocation**, the feature is turned on.

You can also activate the **Schedule K-1 Allocation** option by going to the Organizer tab and clicking **Enable Partner Allocations**. Then click the box for **Enable partner allocation**.

Forms are accessed from the Forms List window at the left of the screen. Click the Organizer tab to display a list of all Organizer forms.

Check and clear diagnostics and overrides before printing.

SETTING PARTNERSHIP OPTIONS AND DEFAULTS

1. To review the partnership information, select **Partnership Information > Partner by Partner Data**.
2. Verify the partnership information.
3. To review the return options, select **General Information > Return and Print Options**. Click each tab to view the various options.
4. Click the **Allocations Options** tab and verify that *Effective*, *Profit*, and *Residual* are the allocation defaults.
5. Select **Partner Information > Common Partner Data > Common Partner Information** tab.
6. Verify that defaults for All Partners are *general*, *individual*, *domestic*, *active*, and *taxable* options.
7. Click the **Liabilities Allocable** tab and view the various options.

SETTING UP PARTNERS

1. Select **Partner Information > Partner by Partner Data**.
2. Click **Columnar Partner Entry**.
3. Verify and enter any missing information:
 - Partner Number
 - Partner Name
 - Address
 - Social Security Number
4. Select the **Ratios\Units** tab.
5. Verify the **Partner Ratios**.

6. Select the **Beginning Capital** tab.
7. Enter the beginning capital balance for each partner.

Cash Distributions

1. To enter cash distributions, select **Partner Information > Common Partner Data**.
2. Click the **Contributions/Distributions** tab.
3. Enter the date and amount of the distribution.



The system will allocate the distribution to each partner based upon their beginning ratios. Only the date and total should be entered.

Transfer of Interest

1. Select **Partner Information > Transfer of Interest > Transfers > Add New Transfer Date**.
2. Enter **03/31/2024** and press **Enter**.
3. Enter the partner number (transferring and receiving) and the percent (**.5**) in the **ratio** column for the first transaction.
4. Select **Add New Transfer Date**.
5. Enter **11/30/2024** and press **Enter**.
6. Enter the transferring partner number. Leave the receiving partner numbers blank for a transfer to all partners for the second transaction.
7. Click the box next to **Withdrawing from partnership**, since Penn is withdrawing from the partnership.



Penn will not be proforma'd as a partner for the 2025 return.

Purchase of Assets

1. Select **Ordinary Income and Deductions > Depreciation and Amortization > Top Partnership > Asset Detail > Add New Asset**.
2. Enter **Various Assets**. Click **OK**.
3. Enter depreciation information on the **Depreciation Detail** screen.



For MACRS or ACRS methods, leave the **Life** field blank unless electing *straight-line*.

Pass-Through Entities

1. Select **Activity Information > Pass-Through Entity > AMOS Partnership**.
2. Click **Pass-Through Entity Activity** underneath **Amos**.
3. Click the **K-1 Line > Lines 1-15** tab.



In preparing a 1065 return, the partnership is only a conduit for the items received on the K-1. The items entered on the screens contained in Organizer under **Pass-Through Entity** simply flow from the Amos Partners K-1 through to the Top Partnership Schedule K. The **Type of Activity** on the **Pass-Through Entity** screens are used only for the printed description on the activity schedule.

4. Enter the amounts on the proper lines on the K-1.
5. To enter interest income for the Pass-Through Entity, select **Special Allocations Detail > Page 1**. Enter the description and amount in the **Interest Income** section.
6. Click the **K-1 Line > Lines 16-20** tab.
7. Enter the amounts on the proper lines on the K-1.



The items may be specially allocated if the partnership agreement had so specified.

Schedule K

1. Select **Sch K > Income Summary**.
2. Click the **Income-Other Interest** tab.
3. Enter the interest income from First Bank.



Had you entered **\$14,000 interest income** directly on the **Income Summary** screen in the **Override Amounts** fields, then interest for Amos Partners would not flow in and add to this amount to yield the total interest income for TOP Partnership.

4. Select **Deduction Summary**.
5. Click the **Deductions-Portfolio** tab.
6. Enter the expenses related to portfolio income. Use **Portfolio Expenses** as a description.

Special Allocations

1. Select **Partner Information > Allocations > Special Allocations > Add New Special Allocation Code**.
2. Enter a 2-character Special Allocation Code, such as **C5**, and press **Enter**.
3. Enter the description **Contributions**.
4. Click **RESIDUAL** to select as the allocation method.
5. Enter **.10** next to **Olson** in the **ratio** column.
6. To enter special allocations for cash contributions, select **Partner Information > Common Partner Data**.
7. Click the **Contributions/Distributions** tab.
8. Enter a **Contribution date** of **06/30/2024** on the second row.
9. Enter **\$1,500** for **Capital Contribution** on the same row.
10. Enter the two-digit allocation code you created (such as **C5**) next to the contributed amount.



Do not use zero as your first character when creating an allocation code.

Balance Sheet

1. Select **Balance Sheet and Reconciliation > Sch L.**
2. Select the **Asset** tab.
3. Verify the beginning and ending balances.
4. Select the **Liabilities/Capital** tab.
5. Verify the capital amounts.



Do not enter the beginning or ending capital. The system will automatically carry the beginning balance and compute the ending balance.

Transmittal Letter/Filing Instructions

1. Select **Letters and Filing Instructions > General Options.**
2. Select **Transmittal Letter Only - No Filing Instructions**. Otherwise, both a transmittal letter and filing instructions will be prepared.
3. Select **Compute > Full Recompute** on the toolbar.
4. Verify that **Ogden, UT** is the Auto Selected Center.
5. Select **Letters and Filing Instructions > Letter Options.**
6. Scroll down to **Edit Signature Block Options**, and enter your name and title in the **Signer's Name** and **Title** fields.
7. Select **Letters and Filing Instructions > Partner Letter Options.**
8. Select **Print partner letters**.

Completing the 1065 Computations

Set the system to automatically compute by selecting **Compute > Auto Compute** on the menu bar. When completed, review Form 1065, Schedule K, and all activity amounts.

ENABLE ALLOCATIONS TO SCHEDULE K-1

Once you are satisfied with the results on the federal form screens, select **Enable Partner Allocations**, then click the box **Enable partner allocations**.

Select **Compute > Full Recompute** on the toolbar. When complete, review K-1 data by selecting the **Tax Forms** tab and view each partner's K-1.

REVIEWING THE RETURN

Compute Before Review

1. Before reviewing the return, make sure your return is completely computed.
2. Select **Compute > Full Recompute** from the menu bar.

Review

The complete return can be viewed on screen and any changes made before printing. Use Tax Forms to review the return. During your review, access supporting workpapers by selecting any field with blue arrows to the right of the field, and then check for diagnostics and overrides.

The review process consists of:

- Reviewing diagnostics and overrides
- Reviewing through Tax Forms
- Reviewing work papers
- Entering corrections and changes
- Reviewing through Print Preview.

Print Preview

1. Access Print Preview to see the return as it will print.
2. View all statements by selecting **Print** on the menu bar.

Diagnostics and Overrides

DIAGNOSTICS

1. To review the diagnostics, select **View > Diagnostics**.
2. A screen displays a list of the diagnostics by type: *Severe*, *Informational*, or *E-file*.
3. To go to the screen where the diagnostic originates, select a diagnostic from the list.

OVERIDES

1. Viewing and accessing overrides works like the review of diagnostics explained above. Select the override to go to the screen where you entered the override.
2. Verify your overrides and clear any unnecessary overrides by clicking the overridden amount and selecting **Clear Override** from the right-click menu.



If you have entered data only through the Organizer screens, no overrides should exist.

Comparison Screens

Once you have completed this case study, you can compare your entries with the master return completed using the same data. To compare the return you prepared to the master, select **Help > Case Study Comparisons** inside the return.

Differences between the amount in your return and the amount in the master return are noted in the **Difference** column. If you entered the data correctly, there should be no amounts in the **Difference** column.

If you have differences, begin by selecting **Compute > Full Recompute**.