

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

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RETURN INFORMATION

Some data is already entered for you. Use the [Data Entry \(page 7\)](#) 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	<i>TOP Partnership</i>
ADDRESS	<i>23 Oak Street Dallas, TX 75244</i>
PRINCIPAL BUSINESS ACTIVITY	<i>Training</i>
PRODUCT OR SERVICE	<i>Training</i>
PRINCIPAL BUSINESS CODE	<i>611000</i>
EIN	<i>55-5555555</i>
DATE BUSINESS STARTED	<i>06/30/1994</i>

3. Enter the following partner information:

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

DISTRIBUTION

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

T. TAYLOR	<i>\$500</i>
O. OLSON	<i>\$400</i>
P. PENN	<i>\$100</i>

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	<i>Various Assets</i>
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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
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**.



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

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.

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.

OVERRIDES

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**.

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