| **Step** | **Form/Note** | **TSO Navigation Path / Screen Line** | **Learning Points** | |
| --- | --- | --- | --- | --- |
| **0** | **Intake Sheet/ Interview** |  | **Filing Status, Dependency** | |
|  | SS Cards |  | On Intake/Interview Sheet, change first name of taxpayer to Stephen, which is name on Social Security card. Note that all SS cards show a middle initial | |
|  | Notes | Dependent Section, grey-shaded area labeled "To Be Completed by Certified Volunteer Preparer" | Fill in shaded area on Page 1, based on info in Notes:  - Question 1 – NO  - Question 2 – NO  - Question 3 – YES  - Question 4 – YES  - Question 5 – YES  Based on these answers & Pub 4012 (Page C-3), Wanda can be claimed as a Qualifying Child for dependency | |
|  | Notes |  | Since Paula's vision is less than 20/200 in both eyes, she is considered legally blind | |
|  | Notes in Step 17 | Health Care Coverage Section, gray-shaded area labeled “To Be Completed by Certified Volunteer Preparer” | Based on your client interview, you should fill in shaded area in Section VI for Health Care Coverage. You can see the information about Health Care in Step 17.  Enter Stephen on taxpayer line and check MEC Entire Year box  Enter Paula on spouse line and check MEC Entire Year box  Enter Wanda on dependent line; under Part Year MEC, circle February through June and September through December; under Exemption, circle January; under Notes write, “SRP for July and August – only 1 short-term coverage gap exemption” | |
| **1** | **Intake Sheet** |  | **Basic Information** | |
|  | Part II | Basic Information \ Filing Status | Use Chart on 4012 Page B-6 to determine the proper filing status  The Hales can file as Married Filing Jointly | |
|  | Part I | Basic Information \ Personal Information | TSO automatically populates spouse's last name the same as taxpayer's. Update if necessary | |
|  |  |  | To enter a date, choose from drop-down menu or type without leading zeroes | |
|  |  |  | Enter current street address & zip code where the taxpayer lives at the time the tax return is prepared; TSO will automatically populate city & state  TSO will also default populate the same state as the “Resident state as of 12/31/2018”; change if the taxpayer moved. TSO uses this to start the correct state return | |
|  |  |  | Entry of telephone number is important if we need to reach the taxpayer | |
|  | Part VII | Basic Information \ Personal Information | Check box that taxpayer wishes to contribute $3 to the Presidential Election Campaign Fund; do not check for spouse | |
|  |  | Start of NJ Return | Based on the state selected as the resident state as of 12/31, TSO automatically starts the NJ return by asking you some basic information questions:  NOTE: These questions do not yet appear in the initial release of NJ. They should be implemented soon. In the meantime, you can go into the State section manually, and answer these same questions in the Basic Information section | |
|  | Part I |  | * County/Municipality Code - Since Pluckemin is not listed in the drop-down menu, use the NJ Municipality Code Lookup Tool on TaxPrep4Free.org Preparer page to determine the proper Municipality for Pluckemin (Somerset-Bedminster Twp.) | |
|  | Notes for ACA Step 17 |  | * Dependent's Health Care Coverage - Answer YES to indicate that the dependent has health care coverage as of now. It does not matter if she did not have coverage all of last year for this NJ question (See ACA information)   This info is not used for income tax purposes; it is used to identify and reach out to residents who are uninsured to make them aware of the availability of health care coverage under the Medicaid and NJ FamilyCare Programs | |
|  | Notes |  | * Gubernatorial Elections Fund - Answer YES to indicate that Stephen wishes to contribute to the Gubernatorial Elections Fund; answer NO for Paula | |
|  |  |  | * NJ PINs – TSO populates the NJ PINs automatically for the taxpayer and spouse | |
|  |  |  | Once the NJ return has been started, TSO automatically displays a refund monitor for both the Federal and the state as information is entered and saved | |
|  | Part I  Part VII  Notes | NJ Checklist   * County/Municipality Code row * Health Insurance for Dependents row * Gubernatorial Elections Fund row * Health Insurance Coverage for Taxpayer and Spouse | Do not enter any other information in the TSO State section until you have finished all the Federal and Health Insurance inputs. Instead, as you go through the Federal section, note any information where NJ tax law requires different handling from the Federal. Capture that info on the NJ Checklist. You will then use the Checklist to enter items in the TSO State section later  Capture the information for the County/Municipality Code, Health Insurance, and Gubernatorial Elections Fund rows now. Even though you have already entered this information into TSO as you started the return, it is good to document it on the Checklist for the Quality Reviewer  **SEE WORK PRODUCT – NJ CHECKLIST** | |
|  | Part II  Notes | * Disabled row (in Basic Information section) | Since neither Stephen nor Paula is disabled, circle No for both on the NJ Disabled row in the Basic Information section for entry later in the State section  TSO no longer asks a second disability question under the Subtractions from Income section. It uses the answer from the disabled row in this section  **SEE WORK PRODUCT – NJ CHECKLIST** | |
|  |  | * Veteran | Circle No for Taxpayer. Even though Stephen is a veteran, he does not meet the requirements for the NJ Veteran Exemption  Circle No for Spouse since Paula is not a veteran | |
|  | Part II  Notes | * Number of Dependents Under Age 22 that Attended College Full Time row | The Hales do not have any dependents under age 22 attending college so just enter 0 on this line on the NJ Checklist so the Quality Reviewer knows you considered this  **SEE WORK PRODUCT – NJ CHECKLIST** | |
|  | Notes for ACA Step 12 | * Has Health Insurance Coverage | Answer Yes to indicate that both Stephen and Paula have health insurance coverage | |
|  | Part II | Basic Information \ Dependents/Qualifying Person | Enter information about Stephen's sister, Wanda  TSO automatically populates Wanda's last name as Hale, the same as taxpayer’s. Change her last name to Winters  Enter Sister and 12 months lived in home  Check box that this person was disabled  NOTE: TSO has added a new question to the Dependent screen. “Was this person a U.S. citizen, U.S. national, or U.S. resident alien? (See Pub. 519 for the definition of a U.S. national or U.S. resident alien) If they were not, you can’t claim the child tax credit or the credit for other dependents for this person.” It seems to automatically default to Yes. Change the answer if needed | |
| **2a** | **Prior Year Return** |  | **State Income Taxes Paid** | |
|  |  | Federal section \ Deduction \ Enter Myself \ Itemized Deductions \ Taxes You Paid | Search for "State" in the Search box at the top of the Main Menu. Choose "Go to Form Additional Paid State Tax now" | |
|  |  | Additional State and Local Income Tax | During the 2018 tax year, the Hales paid $203 for the balance due with their 2017 NJ return, as well as $42 they owed from their NJ return from 3 years ago. Both of these amounts can be claimed as itemized deductions on Sch A Line 5a State and Local Income Tax on their 2018 Federal return (the year they paid). Use a scratch pad on TaxPrep4Free.org Preparer page to calculate the total amount of taxes they paid in 2018 ($203 + 42)  **SEE WORK PRODUCT – SCRATCH PADS**  Enter $245 as Additional State and Local Income Tax. TSO transfers to Sch A Line 5a | |
| **2b** | **Prior Year Return** |  | **Capital Loss Carryover** | |
|  |  | Federal section \ Income \ Capital Gain and Losses (Schedule D) \ Other Capital Gains Data (including Capital Loss Carryover) |  | |
|  |  | Long Tem Loss Carryover from 2017 | Since the Hales’ return was not prepared at an AARP site last year, we have to manually enter the capital loss carryover from their prior year return  Enter $12,454 as the long-term carryover amount for Stephen. (Enter as positive number) | |
| **3** | **1099-R** |  | **1099-R for Acme Pensions** | |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) \ Add or Edit a 1099-R |  | |
|  | Payer's Name & Address  Payer Federal ID # | Payer Information | Enter Payer's Federal ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change. Make necessary corrections. If TSO does not populate name & address, type it in | |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Stephen | |
|  |  | Recipient Information | TSO populates Stephen's name & address info from the Basic Information section. If printed 1099-R info is different, make necessary changes | |
|  | Box 1 | Gross Distribution | Enter gross distribution amount ($23,793)  TSO transfers to 1040 Line 4a | |
|  | Box 2a | Taxable Amount | Box 2a is not populated on the 1099-R form. However, TSO automatically populates the amount from Box 1 in Box 2a. Since the 1099-R does not show any employee contributions in Box 9b, the full amount of the pension is taxable. Therefore, just leave Box 2a as is  TSO transfers the taxable amount in Box 2a to 1040 Line 4b and to NJ 1040 Line 20a  Since Stephen is eligible for a Pension Exclusion on Line 28a, and this is his 1099-R, all of his pension income may be excluded from taxation | |
|  | Box 4 |  | Enter the Federal income tax withheld ($2,379). TSO transfers to 1040 Line 16 | |
|  | Box 7 | Distribution Code | Enter code 7 for normal distribution  The IRA box should not be checked | |
|  |  |  | There is no need to enter any state information since there were no state withholdings | |
|  |  |  | Since the Hales have a second 1099-R, click on Save and Enter Another | |
| **4a** | **CSA 1099-R** |  | **CSA 1099-R for Office of Personnel Management** | |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) \ Add or Edit a 1099-R |  | |
|  | Payer's Name & Address  Payer Federal ID # | Payer Information | Enter Payer's Federal ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change. Make necessary corrections. If TSO does not populate name & address, type it in | |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Stephen | |
|  |  | Recipient Information | TSO populates Stephen's name & address info from the Basic Information section. If printed 1099-R info is different, make necessary changes | |
|  | Box 1 | Gross Distribution | Enter gross distribution amount ($18,625)  TSO transfers to 1040 Line 4a | |
|  | Box 2a | Taxable Amount | Since the taxable amount is not shown on the 1099-R and Stephen made contributions to his pension (as shown in Box 9b), you must determine how much of the pension is taxable. If you do not know how much of his contributions Stephen has been able to exclude in the past, it is easier to use the Bogart Annuity Calculator on the TaxPrep4Free.org Preparer page to do this calculation | |
|  |  | Bogart Annuity Calculator Data Entry | Enter 02/01/2011 as the annuity starting date  Enter annuitant's birth date (01/02/1940)  Since this is a joint or survivor annuity, enter spouse's birth date (02/03/1959)  TSO calculates that the combined age for the survivor annuity is 122  Enter $18,625 as the gross distribution from the CSA 1099-R Box 1  Enter $15,984 as the total annuity contributions from Box 9b  Click on the "Click here to calculate" button | |
|  |  | Bogart Annuity Calculator Results | Since Stephen only received 11 months of his pension during his first year, the calculator determines that he excluded $567 of his contributions in 2011. For each year from 2012-2017, he received 12 months of pension and excluded $619 a year  The calculator also determined that the taxable amount of this year's distribution is $18,006  You can enter the Bogart results into TSO in either of 2 ways:  Enter the taxable amount from the Bogart Form 1099-R box into Box 2a of the 1099-R OR  Below Box 2a, click on “Click here for options.” Choose Simplified Method Worksheet. Then enter all the information from the Bogart Simplified General Rule Worksheet box into TSO. This option will give you carryforward data next year to calculate the taxable amount for this pension | |
|  |  |  | TSO transfers the taxable amount of $18,006 to 1040 Line 4b & to NJ 1040 Line 20a (both totals now $41,799) | |
|  | Box 4 | Federal Income Tax Withheld | Enter the Federal income tax withheld ($1,862). TSO transfers to 1040 Line 16 (total is now $4,241) | |
|  | Box 7 | Distribution Code | Enter 7 as the distribution code - normal distribution | |
|  | Box 9b | Total Employee Contributions | Enter the total employee contributions ($15,984) | |
|  | Box 10 | State Income Tax Withheld | Enter the NJ income tax withheld ($700). TSO transfers to NJ 1040 Line 53 | |
|  |  |  | Use a scratch pad on TaxPrep4Free.org Preparer page to calculate the excludable amount of the distribution that is not taxable this year ($18,625 – 18,006)  **SEE WORK PRODUCT – SCRATCH PADS**  Since Stephen was able to exclude $619 from his gross distribution, you have to enter that amount on NJ 1040 Line 20b as excludable pension. Note the amount on the Adjustments to Line 20b row in the Income Subject to Tax section of the NJ Checklist for later entry in the TSO State Section  **SEE WORK PRODUCT – NJ CHECKLIST** | |
| **4b** | **CSA-1099-R** |  | **Schedule A - Medical Deductions** | |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Medical and Dental Expenses |  | |
|  |  |  | Box 5 on a 1099-R may contain the current year's amount of employee contributions or insurance premiums. On a CSA 1099-R, Box 5 contains the amount that the employee contributes to his health insurance premiums. This amount can be deducted as a medical expense on Sch A  Enter $2,300 as a medical and dental insurance expense | |
|  |  |  | The Federal refund did not change when you entered the medical expenses because the Hales are still using the standard deduction  The NJ refund changed because TSO now calculated medical expenses on NJ 1040 Line 31. TSO calculates the amount of medical expenses that is greater than 2% of NJ Gross Income. The Gross Income is $0 at this point, because all of Stephen’s pension income is offset by the Pension Exclusion on Line 28a, which is $60,000 for 2018. Therefore, the allowable NJ medical expense deduction on NJ 1040 Line 31 is the entire $2,300. Due to this medical deduction, the NJ refund went up. | |
|  |  |  | Since the Hales have a third 1099-R, click on Save and Enter Another | |
| **5** | **1099-R** |  | **1099-R for Acme IRAs** | |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) \ Add or Edit a 1099-R |  | |
|  | Payer's Name & Address  Payer Federal ID # | Payer Information | Enter Payer's Federal ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change. Make necessary corrections. If TSO does not populate name & address, type it in | |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Paula | |
|  |  | Recipient Information | TSO populates Paula's name & address info from the Basic Information section. If printed 1099-R info is different, make necessary changes | |
|  | Box 1 | Gross Distribution | Enter gross distribution amount ($1,000)  TSO transfers to 1040 Line 4a | |
|  | Box 2a | Taxable Amount | TSO automatically transfers the gross amount from Box 1 into Box 2a as the taxable amount ($1,000). If the taxable amount should be something different, you must manually change it  TSO transfers the taxable amount to 1040 Line 4b & to NJ 1040 Line 20a (total now $42,799 for all 3 1099-Rs) | |
|  | Box 4 | Federal Income Tax Withheld | Enter $100 as the Federal tax withheld. TSO transfers to 1040 Line 16 (total now $4,341) | |
|  | Box 7 | Distribution Code | Enter code 7 for a normal distribution  Check box for IRA/SEP/SIMPLE to indicate that this is a distribution from an IRA | |
|  |  |  | Paula took this IRA distribution in November. If she had taken it in June, she would have been younger than 59½. That means she would have been subject to a 10% early withdrawal penalty. The Federal refund would have decreased due to the additional tax due. The NJ refund would not have changed since NJ does not have an early withdrawal penalty | |
|  |  |  | In this step, the Hales' taxable income goes up by $1,000 and their Federal income taxes withheld goes up by $100. Since their taxable income is $13,199, they are currently in the 10% tax bracket ($0 - 19,050), so they owe $100 more tax on the $1,000 income. That was the amount withheld. Therefore, there is no change in the Federal refund | |
| **6** | **SSA-1099** |  | **SSA-1099 for Social Security** | |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions Form 1099-R/ RRB, SSA \ Social Security Benefits/ RRB-1099 |  | |
|  | Box 5 | Taxpayer's Social Security Benefit | Enter $15,972 as Stephen's SS benefit. Always enter the amount from Box 5. It will be in pink on a real SSA-1099  TSO transfers to 1040 Line 5a  Since Social Security is not taxable for NJ, nothing is transferred to the NJ 1040 | |
|  |  |  | TSO calculates that $9,217 of the Social Security is taxable on 1040 Line 5b (based on 1/2 of the Social Security + other gross income on 1040). If other income changes, TSO will recalculate the taxable part of Social Security as needed | |
|  | Box 6 | Taxpayer's Federal Tax Withheld | Enter $550 as Federal Tax withheld  TSO transfers to 1040 Line 16. Total Federal tax withheld is now $4,891 | |
|  | Description box | Taxpayer's Medicare Premiums | Use a scratch pad on TaxPrep4Free.org Preparer page to calculate the total amount of Medicare premiums ($1,385 + 810 = $2,195)  **SEE WORK PRODUCT – SCRATCH PADS**  Enter $2,195 as Stephen's Medicare premiums | |
|  |  |  | TSO includes the Medicare premiums as a Sch A itemized medical deduction. Even though they are included, they do not show on the medical deduction screen | |
|  |  |  | Social Security income is not taxable for NJ. However, since there are Medicare premiums on the Social Security statement, the medical expenses deduction on NJ 1040 Line 31 increases. This, in turn, causes NJ Taxable Income and Refund to change | |
| **7** | **K-1** |  | **K-1 for Acme Partners** | |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ K-1 Earnings \ Sch K-1 (Form 1065) |  | |
|  | Box F | Whose K-1 is this? | Check that the K-1 is for Stephen | |
|  | Boxes B&A | Partnership's Name | Enter Acme Partners as the partnership's name | |
|  |  | Partnership's EIN | Enter Partnership's EIN. TSO populates address if in database. Always check to make sure it matches printed K-1; address can frequently change. Make necessary corrections. If TSO does not populate address, type it in | |
|  |  |  | Check box that says, "This K-1 is from a Passive Entity" | |
|  |  |  | Check box that says, "All Investment is At-Risk" | |
|  |  |  | Click Continue | |
|  | Box 5 | Interest Income | Enter $343 as interest income  TSO transfers to Sch B Line 1, 1040 Line 2b & NJ 1040 Line 16a  NOTE: As of 1-6-2019, there was a glitch in TSO where it was not including amounts from K-1 Box 5 (Interest Income) in NJ-1040 Box 16a (Taxable Interest). That bug still exists. Therefore, in order to enter the taxable interest from the K-1, use the normal Interest and Dividend screen that you would use for a 1099-INT | |
|  | Box 6a | Ordinary Dividends | Enter $474 as ordinary dividends  TSO transfers to Sch B Line 5, 1040 Line 3b & NJ 1040 Line 17 | |
|  | Box 6b | Qualified Dividends | Enter $101 as qualified dividends  TSO transfers to 1040 Line 3a | |
|  | Box 8 | Net Short-Term Capital Gain (Loss) | Enter $72 as net short-term gain  TSO transfers to Sch D Line 5 | |
|  | Box 9a | Net Long-Term Capital Gain (Loss) | Enter $218 as net long-term gain  TSO transfers to Sch D Line 12 | |
|  |  |  | TS uses the $218 to offset part of the long-term loss that was carried over from last year ($-12,454). The net on Sch D Line 15 is now a $-12,236 loss  Combining the short-term gain with the long-term loss produces a net loss of $-12,164 on Sch D Line 16  Since the maximum you can claim in any one year is a $-3,000 loss to offset other income, TS transfers $-3,000 to Sch 1 Line 13  TS then populates the rest of the loss ($-9,164) on Line 13 of the Capital Loss Carryover Worksheet as a long-term capital loss for next year  NJ does not allow you to carryover a loss from last year. Therefore, NJ 1040 Line 19 is now $290 ($72 in short-term gain + $218 in long-term gain from the K-1) | |
|  | Box 18a | Tax Exempt Interest Income | Click Continue twice to get to Line 18A  Enter $31 as exempt interest income  TSO transfers to 1040 Line 2a & NJ 1040 Line 16b | |
|  |  |  | As of 11/24/2017, there was a bug in TSO. Taxable interest from Sch K-1 Box 5 was not transferring to NJ 1040 Line 16a. We will see if this is still happening in T2018 TSO when the State section comes up | |
| **8a** | **1099-INT** | **Interest Income Screen** | **1099-INT for Acme Brokerage Statement (Interest only)** | |
|  |  |  | In the Federal section of TY2018 TSO, the Federal tax-exempt interest income is now entered on the same screen as the Federal taxable interest. Private activity bond interest is entered on that same screen | |
|  |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Interest Income, Form 1099-INT |  | |
|  | Payer's Name & Address | Payer's Name | Enter Payer's TIN. TSO populates address if in database. Always check to make sure it matches printed 1099-INT; address can frequently change. Make necessary corrections. If TSO does not populate address, type it in | |
|  | Recipient's Name & Address | Taxpayer, Spouse, or Joint | Check that the interest was paid to Stephen, the taxpayer | |
|  | Line 1 | Interest Income (Line 1) | Enter $125 for taxable interest  TSO transfers to Sch B Line 1, to 1040 Line 2b (total now $468) & to NJ 1040 Line 16a (total now $468) | |
|  | Line 3 | Interest on U.S. Savings Bonds and Treasury obligations (Box 3) | Enter $506 as taxable interest on U.S. Savings Bonds (Not tax-exempt for Federal unless it is used for education expenses)  TSO transfers to Sch B Line 1 & to 1040 Line 2b. Total Federal taxable interest is now $974 | |
|  |  | Amount of Interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return | Interest on U.S. Savings Bonds is not taxable in NJ  Enter $506 as the amount to subtract from the NJ 1040 taxable income  Choose NJ from the drop-down menu  TSO transfers to NJ 1040 Line 16b for tax-exempt interest (total $537), instead of Line 16a for taxable interest (total still $468) | |
|  | Line 4 | Federal Tax Withheld (Box 4) | Enter $50 for Federal tax withheld  TSO transfers to 1040 Line 16. Total Federal tax withheld is now $4,941 | |
|  | Line 8 | Tax-Exempt Interest | Enter $338 as Federal tax-exempt interest  TSO transfers to 1040 Line 2a (Total now $369) | |
|  | Line 9 | Specified Private Activity Bond | Interest from private activity bonds is not normally taxable. However, it is taxable for the Alternative Minimum Tax  Enter $4 for the specified private activity bond interest  If the taxpayer now owed AMT on Sch 2 Line 45, the return would become Out of Scope | |
| **8b** | **1099-INT** | **Taxable State Interest Screen** | **1099-INT for Acme Brokerage Statement (Interest only)** | |
|  | Line 8  New Jersey Muni Bond line under Interest Detail |  | To determine how much of the Federal tax-exempt interest is taxable for NJ, you must examine the detail behind the tax-exempt interest. Interest on NJ bonds are tax-exempt for NJ as well as for the Federal. Therefore, for the NJ Muni Bond, you do not have to do anything special for the NJ return once you have entered the Federal tax-exempt interest  TSO transfers $149 to NJ 1040 Line 16b. Total NJ tax-exempt interest is now $686 | |
|  | Line 8  NY Muni Bond line under Interest Detail | Taxable State Interest Item | Interest on municipal bonds from states other than NJ are taxable for NJ even though they are tax-exempt for the Federal. Therefore, click on Edit Interest Items under Taxable State Interest  Choose New Jersey from the drop-down menu as State  Choose Taxpayer from the drop-down menu as Owner  Enter $189 as the amount that should be added as taxable interest for NJ  TSO transfers to NJ 1040 Line 16a. Total NJ taxable interest is now $657 | |
| **9a** | **1099-DIV** | **Dividend Income Screen** | **1099-DIV for Acme Brokerage Statement (Dividends only)** | |
|  |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Dividend Income, Form 1099-DIV | Click on Add an Interest or Dividends line to add another Interest and Dividends form. Click on Dividend Interest Income, Form 1099-DIV to enter taxable dividends | |
|  | Payer's Name & Address | Payer's Name | Enter Payer's TIN. TSO populates address if in database. Always check to make sure it matches printed 1099-DIV; address can frequently change. Make necessary corrections. If TSO does not populate address, type it in | |
|  | Recipient's Name & Address | Taxpayer, Spouse, or Joint | Check that the interest was paid to Stephen, the taxpayer | |
|  | Line 1a | Ordinary Dividends | Enter $232 as ordinary dividends  TSO transfers to Sch B Line 5, to 1040 Line 3b (total now $706), & to NJ 1040 Line 17 (total now $706) | |
|  | Line 1b | Qualified Dividends | Enter $125 as qualified dividends  TSO transfers to 1040 Line 3a (total now $226) | |
|  | Line 2a | Capital Gain to Schedule D | Enter $69 as capital gains distributions  TSO transfers to Schedule D Line 13 & to NJ 1040 Line 19 | |
|  | Line 3 | Nondividend Distributions | Enter $32 as nondividend distributions  Nondividend distributions are return of capital. They are not taxable when they are distributed, but they should be entered into TSO anyway. They should be subtracted from the cost basis when the investment is sold | |
|  | Line 4 | Federal Income Tax Withheld | Enter $80 as Federal income tax withheld  TSO transfers to 1040 Line 16. Total Federal tax withheld is now $5,021 | |
|  | Line 6 | Foreign Tax Withheld | Enter $44 as foreign tax paid  TSO transfers to Sch 3 Line 48 | |
|  | Line 11 | Exempt-Interest Dividends | Enter $400 as exempt interest dividends received from a regulated investment company (mutual fund)  TSO transfers to 1040 Line 2a. Total Federal tax-exempt interest is now $769 | |
|  | Line 12 | Interest from Specified Private Activity Bonds Exempt from the Regular Tax | Interest from private activity bonds is not normally taxable. However, it is taxable for the Alternative Minimum Tax  Enter $22 for the specified private activity bond interest dividends  If the taxpayer now owed AMT on Sch 2 Line 45, the return would become Out of Scope | |
| **9b** | **1099-DIV** | **Taxable State Interest Screen** | **1099-DIV for Acme Brokerage Statement (Dividends only)** | |
|  |  |  | Look at the Exempt-Interest Dividends detail to determine if the Federal exempt-interest dividend is treated the same or differently for NJ. The rule is that interest attributable to NJ bonds held by mutual funds is only tax-exempt in NJ if the mutual fund is a “NJ Qualified Investment Fund” (has 80% or more of its investments in obligations that are exempt from NJ income tax - New Jersey will usually be part of fund name). See instructions for NJ 1040 Line16b and GIT-5 for more details, as well as NJ Special Handling document on TaxPrep4Free Page 3 | |
|  | Line 11 Select US General Fund |  | The Select US Tax-Exempt Fund is not a NJ Qualified Investment Fund since it is not NJ specific. Therefore, the exempt interest attributable to NJ is taxable (10%-$20), as well as the part attributable to all other states (60%-$120), together totaling 70% ($140). The only part that is tax exempt on the NJ return is the part attributable to the US obligations, which includes the District of Columbia, Puerto Rico, and US possessions (30%-$60) | |
|  | Line 11 Select NJ Qualified Fund |  | The Select NJ Qualified Fund is considered a "NJ Qualified Investment Fund," so the exempt interest attributable to NJ obligations (70%-$140) is tax exempt, along with the part for US obligations (23%-$46). Only the part attributable to all other states (7%-$14) is taxable | |
|  |  | Taxable State Interest Item | Click on Edit Dividend Items under Taxable State Dividend to add the amounts that are taxable for NJ  Choose New Jersey from the drop-down menu as State  Choose Taxpayer from the drop-down menu as Owner  Use a scratch pad on TaxPrep4Free.org Preparer page to calculate the amount that should be added as taxable for NJ  **SEE WORK PRODUCT – SCRATCH PADS**  Enter $154 ($140 + 14)  TSO transfers the taxable interest to NJ 1040 Line 16a. Total NJ taxable interest is now $811 (Step 7 $343 + Step 8 $631 - 506 + 189 = 314 + Step 9 $140+14=154)  NOTE: As of TY2017, there was a glitch in TSO where it was not including amounts from K-1 Box 5 (Interest Income) in NJ-1040 Box 16a (Taxable Interest). We do not know if that bug still exists in TY2018 yet. If it does, total NJ taxable interest would only show $468 at this point  TSO transfers the tax-exempt interest to NJ 1040 Line 16b. Total NJ tax-exempt interest is now $932 (Step 7 $31 + Step 8 $506 + 149 = 655 + Step 9 $60 + 186 = 246) | |
| **10** | **1099-B** |  | **Brokerage Statement for Acme Brokerage (Capital Gains/Losses Only) - 1099-B** | |
|  |  | Federal section \ Income \ Enter Myself \ Capital Gain and Losses (Schedule D) \ Capital Gains and Loss Items |  | |
|  | Recipient’s Name | Form Belongs To | Choose Stephen Hale as the form’s recipient | |
|  | Description | Description of Property | Enter 50 ZACO (# of shares + symbol of stock) as description of property | |
|  | Date Acquired | Date Acquired | Enter 9/1/1996 as date acquired | |
|  | Date Sold | Date Sold | Enter 5/10/2018 as date sold | |
|  | Proceeds | Sales Price | Enter $3,462 as sales price | |
|  | Basis Not Reported | Select Cost Basis Type | Choose 1099-B, Box 3 Cost Basis NOT Reported to the IRS from the drop-down menu | |
|  | Cost or Other Basis | Cost | Enter $3,181 as cost basis | |
|  |  | Adjustment to Gain or Loss | No adjustment to profit/loss needed | |
|  |  |  | TSO calculates a long-term gain of $281 | |
|  |  |  | Click Save and Enter Another | |
|  | Recipient’s Name | Form Belongs To | Choose Stephen Hale as the form’s recipient | |
|  | Description | Description of Property | Enter 100 ZACO (# of shares + symbol of stock) as description of property | |
|  | Date Acquired | Date Acquired | Enter 9/1/1996 as date acquired | |
|  | Date Sold | Date Sold | Enter 10/20/2018 as date sold | |
|  | Proceeds | Sales Price | Enter $7,226 as sales price | |
|  | Basis Not Reported | Select Cost Basis Type | Choose 1099-B, Box 3 Cost Basis NOT Reported to the IRS from the drop-down menu | |
|  | Cost or Other Basis | Cost | Enter $6,362 as cost basis | |
|  |  | Adjustment to Gain or Loss | No adjustment to profit/loss needed | |
|  |  |  | TSO calculates a long-term gain of $864 | |
|  |  |  | Click Save and Enter Another | |
|  | Recipient’s Name | Form Belongs To | Choose Stephen Hale as the form’s recipient | |
|  | Description | Description of Property | Enter 65 ZAI (# of shares + symbol of stock) as description of property | |
|  | Date Acquired | Date Acquired | Click on Alternate Option for date acquired. Choose Inherited - Long Term from drop-down menu | |
|  | Date Sold | Date Sold | Enter 10/20/2018 as date sold | |
|  | Proceeds | Sales Price | Enter $5,663 as sales price | |
|  | Basis Not Reported | Select Cost Basis Type | Choose 1099-B, Box 3 Cost Basis NOT Reported to the IRS from the drop-down menu | |
|  | Cost or Other Basis | Cost | Enter $7,222 as cost basis, the Fair Market Value of the stock on the date Stephen's uncle died | |
|  |  | Adjustments to Gain or Loss | Enter $97 as a positive adjustment to the loss for this sale | |
|  |  | Adjustment Explanation | This shows a code W in the Adjustment Code column. Check Pub 4012 Page D-24 to see that this indicates a wash sale. A wash sale means that Stephen sold a security at a loss, but he purchased something substantially identical within 30 days before or after the sale. Therefore, he was not allowed to claim the loss  Choose Nondeductible Loss From a Wash Sale from the drop-down menu as the adjustment explanation | |
|  |  |  | TSO calculates a long-term loss of $-1,462 ($5,663-7,222+97) | |
|  |  | Click Continue |  | |
|  |  | **8949 with Code E Checked** | **Long-Term Capital Gains with No Cost Reported to IRS** | |
|  |  |  | TSO transfers all the long-term capital gains transactions with no cost basis reported to the IRS | |
|  |  | **Sch D** | **All Capital Gains Transactions** | |
|  |  | Line 9 | TSO transfers totals from 8949 with Code E Checked (Sales Price $16,351, Cost $16,765, Adjustments to Gain or Loss $97, Gain or Loss $-317) | |
|  |  |  | Prior to this step, Sch D already had a net loss of $-12,095 on Sch D Line 16. Adding the $-317 from this step results in $-12,412 on Line 16. Since the maximum loss allowed on 1040 Line 13 is $-3,000, which was already there from prior steps, the extra loss is just added to the loss carryover to next year ($-9,412). The Federal refund does not change | |
|  |  | **NJ 1040** | **All Capital Gains Transactions** | |
|  |  | Line 19 | NJ does not allow carryover loss. Therefore, the capital loss from this step ($-317) is just combined with the short-term gain from the K-1 ($72) + the long-term gain from the K-1 ($218) + the capital gains distribution from the 1099-DIV ($69). The total ($42) is transferred to NJ 1040 Line 19  Since the loss in this step decreases the amount of NJ capital gains and, thus, NJ taxable income, the NJ refund increases by $4 | |
| **11** | **1099-B** |  | **Brokerage Statement for Acme Brokerage (Capital Gains/Losses Only) - Part 2 - 1099-B** | |
|  |  | Federal section \ Income \ Enter Myself \ Capital Gain and Losses (Schedule D) \ Capital Gains and Loss Items |  | |
|  |  |  | You are allowed to consolidate a number of 1099-B transactions, instead of entering each one separately, as long as the transactions are all in the same category. Since all these transactions are the same 1099 code D (long-term transactions with cost reported to IRS), you can consolidate all of them and just report the totals. You would need to enter a separate line for the consolidation of each other 1099 Code grouping (A, B, E). There is no need to mail in copies of the brokerage statement and Forms 8949 | |
|  | Recipient’s Name | Form Belongs To | Choose Stephen Hale as the form’s recipient | |
|  | Description | Description of Property | Enter Acme Brokerage as description of property | |
|  | Date Acquired | Date Acquired | Click on Alternate Option under dated acquired. Choose Various - Long Term from the drop-down menu | |
|  | Date Sold | Date Sold | Enter 12/31/2018 as date sold (just use the last day of the year as sell date for consolidated transactions) | |
|  | Proceeds | Sales Price | Enter $18,360 as sales price | |
|  | Basis Reported to IRS | Select Cost Basis Type | Choose 1099-B, Box 3 Cost Basis Reported to the IRS from the drop-down menu | |
|  | Cost or Other Basis | Cost | Enter $8,000 as cost basis | |
|  |  | Adjustments to Gain or Loss | Enter $0 as adjustment to gain or loss (or just leave blank) | |
|  |  | Adjustment Explanation | Choose Reporting Multiple Transactions on a Single Row (Code M) from the drop-down menu as the adjustment explanation | |
|  |  |  | TSO calculates a long-term gain of $10,360 | |
|  |  | **8949 with Code D Checked** | **Long-Term Capital Gains with Cost Reported to IRS** | |
|  |  |  | TSO transfers the long-term consolidated capital gains transaction with the cost basis reported to the IRS | |
|  |  | **Sch D** | **All Capital Gains Transactions** | |
|  |  | Line 8b | TSO transfers totals from 8949 with Code D Checked (Sales Price $18,360, Cost $8,000, Gain or Loss $10,360) | |
|  |  | **1040 Line 13** | **Capital Gain/Loss** | |
|  |  |  | Prior to this step, Sch D had a net loss of $-12,412 on Sch D Line 16. Adding the $10,360 gain from this step results in $-2,052 on Line 16. TSO transfers this to Sch 1 Line 13. There is no longer any carryover to next year | |
|  |  | **NJ 1040** | **All Capital Gains Transactions** | |
|  |  | Line 19 | TSO adds the $10,360 gain from this step to the $42 already on Line 19. Total on Line 19 is now $402 | |
| **12** | **W-2G** |  | **W-2G for New Jersey Lottery** | |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ Gambling Winnings (W-2G) |  | |
|  | Winner's Name & Address | This W-2G Issued To: | Click that the W-2G is for Paula | |
|  |  | Payee's Address | TSO populates Paula's address info from the Basic Information section. If printed W-2G info is different, make necessary changes | |
|  | Payer's Name & Address  Payer Federal ID # | Payer's ID # | Enter Payer's Federal ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change. Make necessary corrections. If TSO does not populate name & address, type it in | |
|  | Box 1 | Gross Winnings | Enter $10,000 as gross winnings.  Since the Federal taxes gross gambling winnings, TSO transfers $10,000 to Sch 1 Line 21 and populates GAMBLING WINNINGS as the Other Income Type | |
|  |  |  | Enter $12,000 as gambling losses. TSO knows that you can only claim losses up to the amount of winnings, so it only transfers $10,000 to Sch A Miscellaneous Deductions on Line 16 | |
|  |  |  | NJ does not tax lottery winnings less than or equal to $10,000 in one instance. Since this lottery winnings is exactly $10,000, it is not taxable for NJ  You should note this information on the NJ Checklist in case there are other gambling winnings later in the problem. You would need this data in order to calculate the net gambling winnings for entry later in the State section. Note  +$10,000 on the Total Gambling Winnings row and then -$12,000 on the NJ Line 24 - Gambling Winnings row as NJ Lottery Winnings (<=10,000). If there are no other gambling winnings, then net gambling winnings would be negative and you would not enter anything as the net taxable winnings in the State section  **SEE WORK PRODUCT – NJ CHECKLIST** | |
|  | Box 2 | Date Won | Enter 7/15/2018 as date won | |
|  | Box 3 | Type of Wager | Enter LOTTERY as type of wager | |
|  | Box 4 | Federal Tax Withheld | Enter $2,000 as the Federal tax withheld. Total is now $7,021 | |
|  |  |  | The Federal AGI went up by more than the amount of the lottery winnings because the extra gambling income caused more of Stephen’s Social Security to be taxable | |
| **13** | **Notes** |  | **New Jersey Estimated Payments** | |
| **13a** | **NJ Estimated Payment for 2017** | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Taxes You Paid \ Edit |  | |
|  |  | Prior Year 4th Quarter State Estimates paid after 12/31/2017 | Since the last quarter NJ estimated tax payment for 2017 was paid at the beginning of January 2018, you can claim $50 as an itemized deduction for 2018 as State Income Tax on Schedule A Line 5a  Enter $50 as the 4th quarter estimated tax payment for 2017 paid in 2018 | |
| **13b** | **NJ Estimated Payments for 2018** | Federal section \ Payments & Estimates \ State Estimated Payments |  | |
|  |  | Estimated State Tax Paid on(4/15/2018) | Enter the $60 estimated tax payment made on 4/14/2018 | |
|  |  | Estimated State Tax Paid on(6/15/2018) | Enter the $60 estimated tax payment made on 6/15/2018 | |
|  |  | Estimated State Tax Paid on(9/15/2018) | Enter the $60 estimated tax payment made on 9/11/2018 | |
|  |  | Estimated State Tax Paid ON or BEFORE(12/31/2018) | Enter the $70 estimated tax payment made on 12/28/2018. Make sure that you put it on the line for a payment made before 12/31/2018 so that TSO can properly handle the transfers to the 1040s | |
|  |  | State Name | Choose New Jersey from the drop-down menu | |
|  |  |  | TSO transfers the total of the amounts applied to 2018 NJ taxes ($250), no matter when paid, to NJ 1040 Line 55 | |
|  |  |  | TSO also transfers $300 to Sch A Line 5a as State Income Taxes paid in 2018 (no matter what tax year they are for). Total itemized deductions are now $11,245 | |
| **14a** | **Notes** |  | **Deductions - Medical & Dental Expenses** | |
|  |  | Federal section \ Deductions \ Enter Myself \ Compare Deductions | Before you start to enter the rest of the Hales’ itemized deductions, check that the total of their itemized deductions so far is $11,245. You can do this by looking at the Compare Deductions screen, which compares the family’s standard deduction vs. itemized deductions | |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Medical & Dental Expenses | The IRS allows you to deduct qualified medical expenses that exceed 7.5% of your AGI  NJ allows you to deduct qualified medical expenses that exceed 2% of NJ Gross Income | |
|  | Medicare – Parts B and D |  | Medicare premiums were already entered when the Social Security SSA-1099 was entered. The premiums are included in medical expenses, but they do not show up on the Medical Deductions screen | |
|  | Insurance Paid by Office of Personnel Management |  | The medical insurance premiums shown on the CSA 1099-R from the Office of Personnel Management in Box 5 were already entered as Medical and Dental Insurance in Step 4b | |
|  | Insurance Policy from HealthCare. gov |  | Paula purchased a Marketplace policy (Step 17). These premiums can also be claimed as medical expenses. However, in order to determine the correct amount to claim, you must first calculate the amount of Premium Tax Credits that the Hales are entitled to. Therefore, you must wait until Step 17b to enter these medical expenses | |
|  | Doctor Co-Pays and Deductibles | Amounts Paid to Doctors/Dentists | Enter $300 as doctor bills | |
|  | Long Term Care (LTC) Insurance | Qualified Long-Term Care Premiums | Click on Add Premiums button under Add/Edit Long-Term Care Premiums.  Choose Paula from the drop-down menu. Be sure to choose the correct person, since allowable LTC premiums are based on attained age  Enter $1,800 as total premiums paid  Based on Paula's attained age as of 12/31/2018, she is in the age bracket of more than 50 but not more than 60. Therefore, the maximum deduction that she can claim for LTC premiums is $1,560. TSO gives you an error message to say that you entered too high an amount for LTC premiums. Click on the error message to go back to the screen where you can change the $1,800 to $1,560  NOTE: If you started the Hale problem before the NJ software came up in TSO, it is possible that TSO was still using 2017 LTC premiums tables. Those tables would show that the maximum amount for Paula’s premiums was $1,530. When TSO implemented the 2018 tables, the amount would now be $1,560. Verify that you have the correct 2018 amount | |
|  |  |  | Total allowable medical expenses are now $6,355 (total of Medicare premiums + insurance from Office of Personnel Management CSA-1099-R + co-pays + allowable LTC premiums) | |
|  |  |  | TSO calculates the amount that is greater than 7.5% of Federal AGI ($66,003 x .075 = $4,950) | |
|  |  |  | TSO calculates an allowable Federal medical expense deduction of $1,405 ($6,355– 4,950 = $1,405). If AGI changes due to later entries and when Marketplace premiums are added, TSO recalculates the medical deduction automatically | |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $12,650 vs. a Standard Deduction of $26,600. The Hales will still use the standard deduction at this point  TSO transfers $26,600 to 1040 Line 8 | |
|  |  |  | The Medical and Dental Expenses on Sch A Line 1 ($6,355) are less than the total amount of medical expenses that you entered ($6,595). This is because not all of the LTC expenses can be claimed (only $1,560 out of $1,800) | |
|  |  |  | TSO calculates the allowable medical expenses on NJ 1040 Line 31 (expenses greater than 2% of NJ Gross Income). This amount will be re-calculated later as necessary when Marketplace premiums are added or if NJ gross income changes | |
| **14b** | **Notes** |  | **Deductions - Taxes You Paid** | |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Taxes You Paid |  | |
|  | **State Taxes Paid** |  | The Hales can claim either the state & local income taxes they have paid **OR** the state sales tax, whichever is greater. TSO has been collecting all the state taxes you have entered for Line 5a. Now we need to calculate the state sales tax | |
|  | **Sales Tax** | State and Local Sales Tax Paid | Click on Add Sales Tax Worksheet | |
|  |  | Sales Tax Worksheet | Enter zip code of locality where the Hales lived in 2018. | |
|  |  |  | Enter 365 as number of days lived in the state  If you do not enter the zip code and number of days, TSO will not consider the sales tax at all. It will just automatically choose state income taxes as the best option for the taxpayer | |
|  |  |  | You do not have to enter the percents for the state and local sales tax | |
|  |  |  | TSO uses sales tax charts to determine the allowable sales tax to claim. This is based on the taxpayer's state, tax rate, number of exemptions and income range (includes AGI plus non-taxable income)  TSO transfers to Sch A Line 5a  NOTE: If the client paid sales tax on a large purchase, such as a car, truck, RV, plane, boat or home-building material, you can claim that sales tax amount in addition to the amount from the sales tax charts. Enter in the box, “General Sales Tax Paid.” | |
|  |  |  | When calculating the sales tax deduction, there are certain non-taxable items that can be included in your income that do not appear on the tax return, such as cash gifts, inheritances, workers compensation, child support, etc. You can see a list of them in the Sales Tax tool on the TaxPrep4Free.org Preparer page. If any of these apply, you can add them to the Modified AGI that TSO calculates. Enter on the Sch A – Taxes You Paid screen in the Box labelled “Amount to Adjust the Calculated MAGI By” | |
|  |  |  | TSO determines whether it is better for the taxpayer to claim state income taxes or state sales tax. It populates the amount of the better option on Sch A Line 5a. It will check a box on that line if sales tax is claimed, rather than income taxes | |
|  | **Real Estate Taxes** | Real Estate Taxes (Non-Business Property) | The gross property taxes on the Hales’ principal residence were $7,385. However, the Hales receive a $250 Veterans Deduction on their property tax bill, so their net taxes are $7,135 | |
|  |  |  | On Sch A, the Hales can claim the net amount of property taxes they paid on their principal residence in NJ ($7,135). The net amount is the amount paid **after** any Veterans and Senior Citizen deductions are subtracted. They can also claim the property taxes on the condo in Las Vega ($1,865).  Use the property tax scratch pad on TaxPrep4Free.org to document the total amount of property taxes they can claim  Enter $9,000 as property taxes  TSO transfers to Sch A Line 5b  NOTE: We no longer net any property tax recoveries received in 2018 for prior year taxes paid against 2018 property taxes paid. Property tax recoveries will be handled in Step 15 as Other Income | |
|  |  |  | The Hales meet the eligibility requirements to also claim the NJ property tax deduction/credit. Note the real estate tax information on the NJ Checklist in the Credits section for entry later in the TSO State section  For NJ, you can claim the gross amount of property taxes paid. This is the amount **before** the Veterans and Senior Citizen deductions are subtracted. Enter $7,385 on the Property Tax row in the Credits section  Also enter the Block, Lot, and Qualifier information for the principal residence property on the NJ Checklist  NOTE: For NJ, you can only claim the property taxes you paid on your principal residence; you cannot claim taxes on a second property | |
|  |  |  | Once you have entered the $9,000 of property taxes, the total Taxes You Paid will equal $10,245 ($9,000 + 1,245 state income taxes). However, the Taxes You Paid section is capped at $10,000. Therefore, your total Itemized Deductions only went up by $8,755 from the last step | |
|  |  |  | Itemized Deductions on the Compare Deductions screen are now $21,405 vs. a Standard Deduction of $26,600. The Hales will still use the standard deduction  1040 Line 8 will still be $26,600 | |
| **14c** | **Notes** |  | **Deductions - Interest You Paid** | |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Mortgage Interest & Expenses \ Mortgage Interest Reported on Form 1098 | Click on Edit Interest and Points Paid button | |
|  | Lender's Name & Address | Recipient/Lender's Name | Enter Acme Mortgage as the lender's name for the mortgage on their principal residence | |
|  | Box 1 | Interest Paid | The Hales paid mortgage interest related to the mortgage on their principal residence  Enter $2,135 as the mortgage interest that can be claimed  TSO transfers to Sch A Line 8a | |
|  | Box 6 | Points Paid | The Hales also paid points on the purchase of their principal residence  Enter $565 as points paid  TSO adds this to the amount on Sch A LIne 8a. Total is now $2,700 | |
|  |  |  | Click Continue and then Add a Schedule A Interest | |
|  | Lender's Name & Address | Recipient/Lender's Name | Enter Acme Mortgage as the lender's name for their home equity line of credit | |
|  | Box 1 | Interest | Enter $777 as the mortgage interest on their line of credit  TSO adds this to the amount on Sch A Line 8a. Total is now $3,477 | |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Mortgage Interest & Expenses \ Primary Mortgage Insurance (PMI) Deduction | The deduction for Primary Mortgage Insurance (PMI) has currently expired. It has not been extended as of this point. TSO still allows you to enter PMI in the Itemized Deductions section. However, it is not included in the calculations | |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $24,882 vs. a Standard Deduction of $26,600. The Hales will still use the standard deduction  1040 Line 8 will still be $26,600 | |
| **14d** | **Notes** |  | **Deductions - Gifts to Charity** | |
|  | **Cash Gifts to Charity** | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Gifts to Charity \ Cash Gifts to Charity |  | |
|  |  |  | First you must determine which donations are deductible   * Church cash donations are deductible, and there are written records * You must determine if the Pluckemin Archaelogical Project is an IRS Exempt Organization. There is a link on TaxPrep4Free.org Preparer page IRS section that links to an Exempt Organization Search tool. Just enter Pluckemin in the Organization Name. This foundation is exempt so you can claim the donation as a deduction. The Hales have a canceled check as documentation * The donation to Santa is not deductible because there are no records * Donations to a political party are not deductible | |
|  |  | Total Cash Amount Donated | You can enter cash gifts to charity one by one, or you can group all cash contributions as one single entry. It is easier to group them  Click on Override button  Use a scratch pad on TaxPrep4Free.org to document the deductible cash donations ($520 + 80 = $600)  **SEE WORK PRODUCT – SCRATCH PADS**  Enter $600 as total cash amount donated  TSO transfers to Sch A Line 11 | |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $25,482 vs. a Standard Deduction of $26,600. The Hales will still use the standard deduction  1040 Line 8 will still be $26,600 | |
|  | **Notes** |  | **Deductions - Miscellaneous Deductions** | |
|  | Gambling Losses | Gambling losses to the extent of gambling winnings | The Hales' gambling losses were $12,000. However, they can only claim losses up to the extent of their gambling winnings. Since their only win was the $10,000 lottery, they can only claim $10,000 of losses  You already entered $12,000 as gambling losses on the W-2G screen. TSO transferred $10,000 of those losses to Sch A Line 16 | |
|  |  |  | NJ reports the net amount of gambling winnings and losses, rather than keeping them separate as the Federal does. You now need to calculate the net amount for NJ. To document this, note the following on the LIne 24 - Gambling Winnings line on the NJ Checklist:   * $10,000 as Total Gambling Winnings * $-10,000 as NJ Lottery Winnings (<= 10,000) * $-12,000 as Gambling Losses * 0 as Net Total since NJ does not allow a net gambling loss   **SEE WORK PRODUCT – NJ CHECKLIST** | |
|  |  |  | If later entries change any number on Sch A, TSO will automatically compare the revised total itemized deductions against the standard deduction and re-populate 1040 Line 8 as appropriate | |
| **15** | **Notes** |  | **Homestead Benefit Recovery** | |
|  |  |  | If the client does not have documentation to show the amount of the Homestead Benefit credit on their property tax bill, you can look it up using the Online Inquiry for Homestead Rebate link on the TaxPrep4Free.org Preparer page. You must know the primary taxpayer’s Social Security # and zip code | |
|  |  |  | You must first determine whether the Homestead Benefit that the Hales received in 2018 is considered a recovery. It is a recovery if the taxpayers itemized in the year that the rebate pertains to. In this case, the $400 they received in 2018 was for property taxes they paid in 2015. Based on the taxpayers’ statement, they probably itemized in 2015 and received a tax benefit by claiming real estate taxes on Schedule A. Therefore, when they received a rebate of some of this money this year, it is a recovery and must be declared as Other Income | |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ Other Income Not Reported Elsewhere | Enter Homestead Benefit Recovery as the description of the Other Income and the amount as $400  TSO transfers the $400 to Schedule 1 Line 21. The $400 flows through to NJ Other Income on NJ 1040 Line 26 | |
|  |  |  | Since the Homestead Benefit is not considered taxable income for NJ, you must note the $400 as a negative amount on the Adjustments to Line 26 row in the Income Subject to Tax section of the NJ Checklist. This will be entered later in the TSO State Section  **SEE WORK PRODUCT – NJ CHECKLIST** | |
|  |  |  | The itemized deductions went down by $30 in this step due to the automatic recalculation of the medical expense deduction that TS does when new items are added to the return. Since the taxpayers’ income went up, 7.5% of AGI went up. Therefore, the amount of medical expenses that can be deducted went down  Total itemized deductions are now $25,422 vs. a Standard Deduction of $26,600. The Hales will still use the standard deduction | |
| **16** | **Notes** |  | **Credit for the Elderly or Disabled** | |
|  |  | Federal section \ Deductions \ Enter Myself \ Credits Menu \ Credit for the Elderly or Disabled (Schedule R) | TaxSlayer does not automatically check eligibility for the Credit for the Elderly or Disabled; the preparer must use the chart on Pub 4012 Page G-17 to manually determine potential eligibility. If you think the client is potentially eligible, then you must enter the information that TSO needs to calculate official eligibility and the amount of the credit, if any | |
|  |  |  | The Hales do not qualify for this credit. Their AGI is over the limit for Married Filing Jointly. Therefore, you do not have to enter anything into TSO | |
| **17a** | **Notes** |  | **ACA Health Insurance – Health Insurance Section** | |
|  |  | Did you or your family have health insurance at any time in 2018? | Answer Yes | |
|  |  | Did you purchase health care via Healthcare.gov or a State Marketplace? | Answer Yes | |
|  |  | Verify Your Household Members | Household members listed on this screen are the people listed under the Basic Information section. If you need to add or remove dependents, go to the Basic Information section. If you have additional household members that are neither a spouse nor a dependent, click "Add a New Household Member."  If these situations do not apply, just click Continue | |
|  |  | Was your entire household insured for all 12 months of 2018? | Answer No. Then you must enter the number of months that each person was insured: 12 for Stephen and Paula, 9 for Wanda. Remember that coverage for one day in a month means the whole month is covered | |
|  |  | Months Insured – Wanda Winters | Since Wanda only had coverage for 9 months, specify the months that she had minimum essential coverage. Click on February - June and September - December | |
|  |  | Did you receive a 1095-A statement or any Premium Tax Credits to assist you in paying for your health care for 2016?  Are you required to repay all of the APTC received?  Is your household income below 100% of the federal poverty line, or do you meet all the requirements under either “Estimated household income at least 100% of the federal poverty line” or “Alien lawfully present in the United States”?  Do all Forms 1095-A include coverage for January through December, with no changes in monthly amounts?  Premium Amount (Form 1095-A, line 33A)  Annual Premium Amount of SLCSP (Form 1095-A, line 33B)  Annual Advance Payment of PTC (Form 1095-A, line 33C) | Answer Yes since Paula received a 1095-A, and it shows that she received Advance Premium Tax Credits  Answer No. You would only answer Yes if you were not considered lawfully present in the U.S. or you meet the Health Coverage Tax Credit criteria. TSO automatically calculates a full repayment of APTC when the Modified AGI is greater than 400% of the Federal Poverty Line (See Pub 4012 Page H-24)  TSO defaults to No. This is correct for the Hales, so leave as is  Answer Yes. This means that you can use the yearly totals from the 1095-A, instead of having to list all the monthly amounts  Enter $6,840 as the annual premium amount  Enter $7,553 as the annual premium amount of the Second Lowest Cost Silver Plan for the Hales' county  Enter $480 as the annual amount of Advance PTC that was paid to the insurance company on Paula's behalf during the year | |
|  |  |  | TSO completes Form 8962 to calculate the Premium Tax Credit (PTC) that the Hales are entitled to claim ($902). It then compares the $902 with the Advance PTC that the Hales received during the year ($480)  TSO determines that the Hales can claim an additional $422  TSO transfers $422 to Schedule 5 Line 70 as net PTC | |
|  |  | Enter any premium amount paid through a salary reduction agreement that is excluded from gross amount  Dependents’ Modified AGI | This entry is included in the affordability threshold when determining affordability. Since you will not be completing the affordability worksheets for the Hales, you do not need to enter anything on this line  You must include a dependent's Modified AGI in household income if the dependent has a tax filing requirement (refer to Pub 4012 Page H-11). Since Wanda only receives $250 per month in Social Security benefits, she does not have a filing requirement  Just click Continue | |
|  |  | Exemption for household or gross income below the filing threshold  Did you qualify for an exemption due to circumstances or receive an exemption from the marketplace? | Based on the information you have entered on the tax return, TSO tells you that the Hales do not qualify for an exemption for household or gross income below the filing threshold  Wanda did not receive an exemption from the Marketplace, but she does qualify for a short coverage gap exemption on her income tax return (refer to Pub 4012, Page H-15)  Answer Yes | |
|  |  | Name of Individual  Do you have a marketplace-issued certificate for this exemption or going to apply for an exemption?  Exemption Type on the Return | Choose Wanda Winters from the drop-down menu  Wanda has neither received nor applied for a Marketplace-issued exemption. Answer No  Wanda had 2 short gaps in coverage during the year - January and July/August. You can only claim one short coverage gap exemption per year; it must be for the first eligible period. So Wanda can only claim this exemption for January, even though it would be more beneficial to claim for July and August  Choose short gap in coverage from the drop-down menu  Click on January  NOTE: If someone lacks coverage in January, you have to look back at the ending months of the prior year to make sure that the gap is less than 3 months. Wanda had coverage for at least part of December last year so her gap is only one month | |
|  |  | Health Coverage Exemptions | TSO completes Form 8965 to claim Wanda's exemption for January and displays the exemption code B on this screen. She is not eligible for any other exemption | |
|  |  |  | Since Wanda did not have coverage for July/August nor did she have an exemption, the Hales will have to pay a shared responsibility payment (SRP) for these 2 months. TSO will calculate the amount: $695 or 2.5% of household income, whichever is higher, pro-rated for 2 months. The flat dollar SRP amount would be $116, and the percentage income amount would be $175  There is a shared responsibility payment worksheet in the PDF file that shows the calculations  TSO transfers $175 to Schedule 4 Line 61 | |
|  |  |  | Once you have completed the TSO Health Insurance section, review your entries in Part VI of the Intake/Interview Sheet and make any necessary corrections | |
| **17b** | **Notes** |  | **ACA Health Insurance – Add Sch A Amount** | |
|  |  |  | Using a scratch pad on TaxPrep4Free.org Preparer page, calculate the amount the Hales can claim as medical expenses for their healthcare.gov policy  **SEE WORK PRODUCT – SCRATCH PADS**  The Hales can claim the premiums they paid for the Marketplace policy for Paula as a medical expense on Sch A. The total cost of the policy was $6,840 (Form 1095-A, Column A total). However, Healthcare.gov paid $480 to the insurance company on the Hales' behalf during the year as an Advance PTC (Form 1095 Column C total). Therefore, the Hales' out-of-pocket expenses during the year were $6,360  When you complete the Hales' income tax return, you see that they are entitled to a net PTC of $422 on Schedule 5 Line 70. This is the additional PTC they will get after you reconciled the 1095-A form. So they will only pay $5,938 out of pocket in total | |
|  |  |  | If the Hales had to pay back some of the Advance PTC they received, as shown on 1040 Line 46, you would add that amount to their out-of-pocket expenses (N/A in this problem) | |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Medical & Dental Expenses | There is already $2,300 on the medical and dental insurance line for the premiums shown on the CSA 1099-R. Add $5,938 for a total of $8,238  Total itemized deductions are now $31,390, which the Hales will claim on 1040 Line 8 | |
|  |  |  | **State Section (New Jersey)** | |
|  |  |  | As you have been completing the Federal section, you have been collecting information on areas where NJ tax law requires different handling than the Federal. Now you will enter that information into the State section | |
| **18a** | **NJ Checklist** |  | **NJ Checklist - Basic Information** | |
|  |  | State section \ Edit \ Enter Myself \ Basic Information | You answered most of the Basic Information questions when the NJ return was started in Step 1  Looking at the NJ Checklist, you see that there are no additional items in this section that you need to enter | |
| **18b** | **NJ Checklist** |  | **NJ Checklist - Income Subject to Tax** | |
|  |  | State section \ Edit \ Enter Myself \ Income Subject to Tax |  | |
|  | NJ Line 24 - Gambling Winnings row | Enter Taxable Gambling Winnings | When you calculated the NJ net gambling winnings on the Checklist, the total came out to be less than 0. Since NJ does not allow a net gambling loss, you do not need to enter anything on the gambling winnings line | |
|  | Adjustments to Line 20a row | Enter Military Pension or Survivor's Benefit Payments Received - Taxpayer | There are no adjustments needed to NJ 1040 Line 20a for the taxable amount of the Hales' pensions/IRAs | |
|  | Adjustments to Line 20b row | Tax-Exempt Pensions and Annuities | You should have already noted the amount excluded from tax on the Office of Personnel Management pension in Step 4  Enter $619 as the tax-exempt pension amount  TSO transfers to NJ 1040 Line 20b | |
|  | Adjustments to Line 26 | Taxable Amount of Scholarships included on Federal Return | On the Federal return, the Homestead Benefit recovery was reported on Other Income on Sch 1 Line 21. Since the Homestead Benefit is not taxable for NJ, we must subtract the $400 Homestead Benefit from NJ 1040 Line 26 Other Income by entering a $-400 adjustment | |
| **18c** | **NJ Checklist** |  | **NJ Checklist - Subtraction from Income** | |
|  |  | State section \ Edit \ Enter Myself \ Subtractions from Income |  | |
|  |  |  | There are no additional items in this section that need to be entered | |
| **18d** | **NJ Checklist** |  | **NJ Checklist - Credits** | |
|  |  | State section \ Edit \ Enter Myself \ Credits |  | |
|  | Property Tax row |  | Click on Begin | |
|  |  | Did You Meet Property Tax Eligibility Requirements? | Answer Yes to indicate that the Hales meet the requirements to claim a NJ property tax deduction/credit | |
|  |  | Enter Property Taxes Paid | You should have already noted the gross amount of the property taxes that the Hales paid on their principal residence from Step 14b ($7,385) on the NJ Checklist. Remember that NJ does not allow them to claim the property taxes they paid on their second home, the condo in Las Vegas  Enter $7,385 as property taxes | |
|  |  | Were You a Homeowner in 2018? | Answer Yes | |
|  |  | Are you eligible and file for a homestead benefit application to receive the property tax credit with the homestead benefit? | Answer Yes  NOTE: This is a new question this year. If you are eligible and file for the Homestead Benefit (answer Yes), you will receive the $50 property tax credit on your property tax bill, along with the Homestead Benefit. If you are not eligible or don’t file for the Homestead Benefit (answer No), TSO will populate the $50 credit on the NJ 1040 Line 54 | |
|  |  | Block Information | Enter 50001 as the block # of the Hales' residence | |
|  |  | Lot Information | Enter 00002 as the lot # of the Hales' residence | |
|  |  | County/Municipality | Choose the county/municipality for the property for which the Hales are claiming the property tax deduction/credit. It may not be the same as the county/municipality you chose in the NJ Basic Information section (where they live when taxes are prepared) if the Hales have moved  TSO transfers to NJ 1040 Line 38c | |
|  |  |  | Since the Hales are homeowners, and they are eligible for and file for the Homestead Benefit, they will receive a $50 property tax credit along with their Homestead Benefit credit on their property tax bill | |
| **18e** | **NJ Checklist** |  | **NJ Checklist - Tax** | |
|  |  | State section \ Edit \ Enter Myself \ Tax |  | |
|  | Use Tax | Use Tax Due on Out-of-State Purchases | Look up the amount of use tax that the Hales owe based on their NJ gross income on Line 29, which is 0. (Use NJ 1040 instructions or the link on TaxPrep4Free.org Preparer page to determine the amount of use tax). The Use Tax Table is not yet available for 2018; use 2017 Table for now.  Enter $14 for use tax  TSO transfers to NJ 1040 Line 50 | |
| **18f** | **NJ Checklist** |  | **NJ Checklist - Payments** | |
|  |  | State section \ Edit \ Enter Myself \ Payments |  | |
|  |  |  | There are no additional items in this section that need to be entered | |
| **18g** | **Notes** |  | **NJ Checklist - NJ Estimated Payment Vouchers** | |
|  |  | State section \ Edit \ Enter Myself \ Miscellaneous Forms \ Estimated Payment Vouchers, Form NJ-1040-ES |  | |
|  |  | Select Yes and enter the amounts you would like to print on your estimated payment vouchers. | Select Yes from the drop-down menu | |
|  |  | Payment Voucher | Enter $20 as the amount the Hales would like to pay each quarter  TSO will include 4 vouchers in the print package for the Hales  Go over with the Hales how to make out their checks, where to send the payments, due dates, etc. as you review their return with them | |
|  |  | **E-File Section** |  | |
|  |  |  | TSO will give you a “State Validation Errors” message about the NJ 1065 K-1. Ignore this message for practice returns  Resolve any other warnings that TSO displays before moving on to e-filing | |
| **19a** | **Intake Sheet** |  | **E-File - Return Type** | |
|  | Part VII | Federal Return Type | Per the Intake Sheet, the Hales want to have their refund direct deposited  Choose E-file: Direct Deposit from the drop-down menu | |
| **19b** | **Notes** |  | **E-File - Tax Preparation & E-File Information** | |
|  |  |  | The fees section does not apply to us | |
|  |  | Client Email | The Hales did not list an email on the Intake/Interview sheet, so there is nothing to enter here | |
|  |  |  | The E-file PINs are automatically generated | |
| **19c** | **Notes** |  | **E-File - State Return(s)** | |
|  |  | State Return Type | Per their interview, the Hales want to have their NJ refund direct deposited also  Choose E-file: Direct Deposit from the drop-down menu | |
| **19d** | **Notes** |  | **E-File - Taxpayer Bank Account Information** | |
|  |  | Name of Bank | Enter Acme Bank as the name of the Hales' bank (optional) | |
|  |  | Type of Account | Choose Checking as the type of bank account that will be used for the direct deposit | |
|  |  | Routing Transit Number | Enter 081904808 as the routing number of the Hales' bank account | |
|  |  | Bank Account Number | Enter 986532 as the Hales' bank account number | |
| **19e** | **Notes** |  | **E-File - Third Party Designee Info** | |
|  |  |  | Do not fill in anything in this section | |
| **19f** | **Notes** |  | **E-File - Consent Placeholder for Global Carry Forward** | |
|  |  |  | Choose the Hales’ answer of Deny for Global Carry Forward from the Intake booklet | |
| **19g** | **Intake Sheet**  **Notes** |  | **E-File - Questions** | |
|  |  | Would you say you can carry on a conversation in English, both understanding and speaking? | Choose Prefer Not to Answer from the drop-down menu | |
|  |  | Would you say you can read a newspaper or book in English? | Choose Prefer Not to Answer from the drop-down menu | |
|  |  | Do you or any member of your household have a disability? | Choose Yes from the drop-down menu | |
|  |  | Are you or your spouse a Veteran from the U.S. Armed Forces? | Choose Yes from the drop-down menu | |
| **19h** |  |  | **E-file – State ID (Optional)** | |
|  |  |  | Ignore this screen | |
| **19i** |  |  | **E-File - Submission** | |
|  |  | Ready for Review | Click on the Ready for Review button. Click on Save and Exit Return |
|  |  |  | After the return is reviewed by the Quality Reviewer, you can print a copy of the returns for the client from this Submission screen or from the Office Client List screen | |