TaxSlayer 2016 Tips v4

TaxSlayer handles most, but not every, situation required to prepare a correct tax return properly. Prior tips have been incorporated into the NTTC Modified Pub 4012 v4. The tips below are **not** in the NTTC Modified Pub 4012 v4. As TaxSlayer continues to evolve, some of these tips may change. Changes to this document from the previous version are flagged with a vertical line in the left margin.

Please let the National Tax Training Committee know through a OneSupport *Request* ticket if you have identified additional tips or have other suggestions.

Income

1. **Medicaid waiver payment on W-2** – TaxSlayer has created a new field on the W-2 input screen. Enter the amount of wages (included in box 1 on Form W-2) that should be excluded as Medicaid Waiver Payments (MWP). That amount should be no more than the amount earned while the care provider and care recipient lived together. That may be less than the full year. TaxSlayer will make the entry on Line 21 Other Income to remove the wages from AGI and it will reduce earned income for the three affected credits (EIC, ACTC and CDC).

   Note for MFJ returns: The earned income reduction is currently applied to the taxpayer's wage income for the three credits, even if the spouse has the MWP income. This could result in denial of CDC if the taxpayer's earned income is less than the MWP. A workaround would be to list the MWP-earning spouse as the taxpayer. Alternatively, manually enter the Line 21 negative income and use the old prisoner income approach for the credits.

   Removing the excluded wages from state calculations may be needed and possible by entering the state-taxable wages (often -0-) in box 16 state wages on the W-2 (to be confirmed state-by-state).

2. **Sale of main home** – The TaxSlayer sale of main home worksheet may not include the transaction on Form 8949 if it is a nondeductible loss (even though Form 1099-S has been received and we must report it). And, it does not show the "E" code for selling expenses. Until fixed, counselors should not use the worksheet. Instead, enter the transaction as you would other capital gain or loss transactions and use the appropriate codes. If using more than one code, net the adjustment amounts.

3. **Multiple codes on Form 8949** – When more than one code is used (such as M and W), TaxSlayer now processes them in alphabetical order as required by the IRS.

4. **State Income Tax Refund** – The taxability of state tax refund worksheet now compares standard to itemized deductions and sales tax to income tax. We recommend using the Bogart calculator if last year's taxable amount was negative or nonrefundable credits were not fully used.

Deductions/Credits

1. **Schedule A sales tax deductions** – The Schedule A *Taxes You Paid* entry page now includes a field to add an amount to the MAGI for sales tax deduction calculation. Alternatively, you can use the *General Sales Tax Deduction Income Worksheet* in the NTTC-revised Pub 4012 or the *Sales Tax* ***Worksheet*** at http://cotaxaide.org/tools/ to compute total income for the sales tax tables. If using the TaxSlayer calculator, use 366 days (not 365) for 2016.
2. **Tax credits for unclaimed dependent (education and retirement savings)** – An unclaimed dependent cannot claim their own exemption deduction, but they are allowed credits for education (AOC or LLC) and retirement savings. TaxSlayer will not allow either credit and there is no way to manually fix this. Advise the taxpayer to go to a paid preparer (or to come back later in the season to see if TaxSlayer has fixed it).
3. **Retirement Savings Credit** – When taxpayer or spouse works and contributes to a retirement account and taxpayer or spouse receives either a pension or a distribution from a retirement account, TaxSlayer offsets most Forms 1099-R distributions against the contribution amounts for the credit. If the distribution is a military pension or another exception as shown on pg G-7 in Pub 4012, the distribution should not be offset. You may need to enter a negative amount equal to the exception in the box labeled "any other taxable distributions…" on the Form 8880 entry page to allow the credit. Verify that the exception is not double-counted. Note: distributions from all plans to which the taxpayer **could** *voluntarily* contribute offset a current contribution. Defined benefit pension plan distributions are typically an exception. Also, TaxSlayer does not print a Form 8880 unless there is a credit.
4. **Earned income credit** – When taxpayer1 can be claimed as the qualifying relative of another taxpayer, taxpayer1 can still claim EIC if they have a qualifying child. An example is a young mother, Betty, supported by her parents but not living with them. Betty can be claimed as her parents' qualifying relative (but not as their qualifying child because they do not live together). Betty can claim EIC with her qualifying child. TaxSlayer cannot yet handle this situation. It computes the EIC, but will not allow the return to e-file. A paper return may be needed.
5. **Rollover with Withholding** – If a taxpayer received a qualified retirement distribution with federal tax withheld and then decides to roll it over into another account, TaxSlayer does not allow the rollover of the entire amount because of the income tax withheld. Complete the Form 1099-R entry page with $0 taxable, no withholding, code G and the rollover of the full amount and enter the tax withheld as *Other Federal Withholding* under *Payments & Estimates*.
6. **Form 8283 *Non-Cash Donations*** – Although the IRS does not require the *when, how acquired or cost* information for a non-cash donation of $500 or less, TaxSlayer requires that information. Enter a best guess after discussing with the taxpayer.

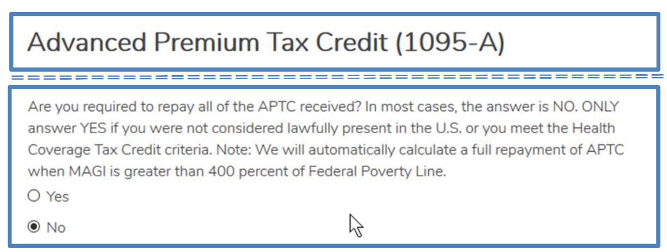
Other

1. **Dependent not living with taxpayer** – For example a sibling or parent, use "other reasons" in the drop down menu for months lived in home.
2. **ACA**
   a. **Executive order Jan 20, 2017** – The executive order does not affect how Tax-Aide will prepare 2016 tax returns. We need to wait for Congress or Treasury to change the law or regulations. Counselors can remind taxpayers subject to a shared responsibility payment of the option to petition the marketplace for a hardship exemption; but, it remains the taxpayer's decision.

   b. **Looking up 2016 quotes** – State exchanges may not have 2016 and prior year quotes available for exemption purposes. HealthPocket.com may be able to provide the needed quote information. Use this site with caution – it may quote one individual at a time. If so, add up the by-individual quotes to get the total LCBP or SLCSP needed to complete the Bogart Affordability Calculator.

   c. **SLCSP for 2016 PTC** – If your state exchange does not have quotes online for PTC purposes, we suggest you first try your state exchange to get the needed SLCSP quote. If unsuccessful, use HealthPocket.com or other resource you find useful. If the state's rates have not changed much, it may be necessary to use a later year's plan quotes – but this should be a last choice.

   d. **Required to repay all EXCESS APTC?** – All APTC must be repaid without a cap if income is greater than 400% of FPL and in the two rare situations which are now described in the additional TaxSlayer verbiage.



   TaxSlayer handles the 400%-or-more FPL situations well and you **don't** need to answer this question "yes."

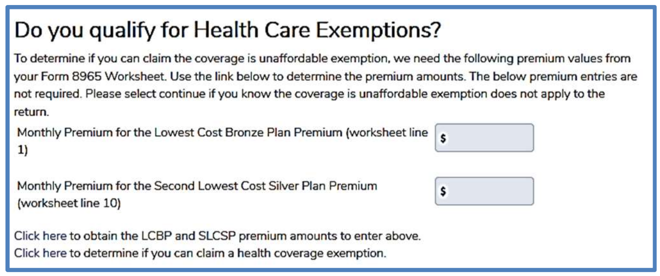
   The very rare situation when this box should be checked "yes," is when the system would otherwise apply the cap to the repayment and the taxpayer must really repay **all** the APTC. There are just **two** very rare situations where this might arise:

   - A person who is not lawfully present in the U.S. but got a marketplace policy with APTC (but be careful if the policy also covers a person who is eligible for PTC as PTC is allowed for them*).
   - Specific Health Care Tax Credit (HCTC) situations – see Form 8962 instructions. Note: HCTC is out of scope for Tax-Aide.

   In these two very rare situations where **NO** PTC is allowed, check the box yes **AND do not enter the plan premium (column A on 1095-A).** If you enter the column A premium and a SLCSP, TaxSlayer will allow the computed PTC and show the rest as excess without a cap – that would be the wrong answer. In these very rare situations, 100% of the APTC must be repaid. By not entering the column A premium, the computed PTC is zero and all APTC is excess.

* This situation is also very rare, e.g., unlawfully present taxpayer gets coverage with APTC for lawful children. If the policy also covered the unlawful person, it becomes very complex as highlighted in Pub 974. To compute the correct allowable PTC, the plan premium (column A on 1095-A) and SLCSP amounts would have to be for the eligible persons on the return only. Your Local Coordinator may decide that these situations are too complex and should be referred to a paid preparer.

e. **Affordability exemption** – TaxSlayer continues to work on its affordability exemption worksheet. However, it does not ask for the amount of any premium that is paid through a salary reduction arrangement (pre-tax medical) which affects the affordability threshold. Also, there could be an employer offer or circumstances might change during the year. Therefore, the result is **not** reliable. **Simply "continue" past this page.**



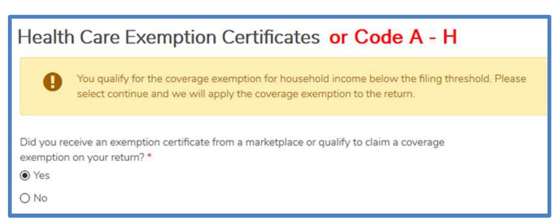
Use the Bogart Affordability Calculator at http://cotaxaide.org/tools/ and select the affordability exemption in TaxSlayer for the person(s) to whom it applies.

f. **New *filing threshold* exemption** – When you enter dependents' income elements in the Health Insurance section (needed when their gross income requires them to file a return only), TaxSlayer properly computes household income for the filing threshold exemption (line 7 on Form 8965).

TaxSlayer attempts to compute gross income on the return for the second opportunity for this exemption (gross income below the filing threshold). So long as you have not grouped capital gain transactions with loss transactions (M code), TaxSlayer will make a good gross income computation. In cases where this exemption may be needed, be sure to **not** group capital gain and loss transactions.

When either filing threshold exemption applies, it applies to all family members shown on the return. You do not need to claim any other exemption, even if the person qualifies for another exemption. So on the screen below in (g), answer "no."

g. **Health coverage exemptions** – Other than the filing threshold exemptions in (f) above, you will need to determine if an exemption applies. If there is a marketplace exemption certificate or one of the other exemptions



(code letters A through H) applies, check yes to this question.

TaxSlayer will then provide the opportunity to enter exemptions for each person on the return.

3. **Signature for deceased taxpayer** – TaxSlayer now allows the year of death to be 2017. It's possible that the IRS might reject the return if their database (from the Social Security Administration) has not yet been updated. It may take a month or so for the update.

4. **Form 1040-A or Form 1040-EZ** – Although you can select Form 1040 in the print package so that it is the form printed, it merely prints the long form. It does **not** change the form that is transmitted (A or EZ will be transmitted). To force a long Form 1040 for both printing and e-file purposes, add $1 to Other Income captioned "To force Form 1040" and then add a negative $1 to Other Income captioned "To force Form 1040 offset."

5. **Form 8888** – Unless your site has a great need for this form, we suggest to not activate it as it removes the dual input requirement for routing and account numbers. With the Form 8888, it asks for the numbers once only; without Form 8888, you'll see the dual input screen. Each site should determine whether to use Form 8888 or the dual input screen.

6. **Print sets** – Please be sure the taxpayer's printed copy of the return is complete. Note that TaxSlayer will not print forms that are not required. You may also wish to print some worksheets for the taxpayer's records from the Master or QR print sets.

   You may need to print additional forms or pages that are not in any print set, especially for state forms. If so and not already done, please submit these issues through your state's point of contact or to TaxSlayer directly at support@vita.taxslayer.com.

   Very important: do **not** print or include the federal due diligence forms for the taxpayer's copy. Although we have to answer the questions to process the return, the forms are NOT transmitted and are not a part of the Tax-Aide-prepared return. The status of state due diligence forms, if any, should be determined at the state level.

7. **Direct debit** – Counselors need to highlight scheduled direct debits for the taxpayer on the document envelope or otherwise. The print sets do not include an ACH form or reminder page at his time. One option is to take and print a screen shot of the direct debit section on the E-File page using the Windows Snipping Tool or Print Screen.

   Taxpayer can choose any date for direct debit (including after April 18 which would likely cause interest and penalties to be assessed). The state date will be same as the federal date. Can elect partial direct debit of federal balance due (but not of state balance), but there is no federal voucher printed for remainder. Note, a state voucher prints even if there is a direct debit.

8. **No Refund/Balance Due Return** – Select "Mail Payment" as the Federal Return Type to e-file a return that has no refund or no payment due.

9. **Zero AGI returns** – To deter identity theft, Tax-Aide recommends that a return be e-filed, even though not required. Add $1 to other income and describe as "TO ENABLE E-FILE." In the very rare instance that tax withheld exceeds AGI, add the $1 to dividend income as a capital gain distribution – this will allow the return to be e-filed.
10. **Prior year returns** – Many improvements to TaxSlayer 2016 have not, and will not, be pushed into prior years' software. Your Local Coordinator will need to decide if the prior year's return or amended return can be prepared accurately.
11. **Holding State Return** — If you have more than one state return attached to one federal return and want to hold one or more of the state returns while waiting for the first state to be accepted, mark the state returns you don't want to file as paper and mark those you want filed immediately after the federal is accepted for an electronic submission. When you are ready to send those other states, leave the federal as NON paper, change the accepted state(s) to paper and change the ones you want to file to electronic and mark the box Send State Only.
12. **Carry Forward Data** — When preparing prior year returns, 2013 and 2014 return data do not carry forward. If you prepare a 2015 return it will carry forward to 2016. However, you need to complete the 2015 return and transmit the return using the transmit button on the Submission Page. Log out of TaxSlayer and back in, then you can start the 2016 return. The 2015 return does not need to be acknowledged. If you do not transmit the 2015 return you will receive a message that the SSN already exists when you try to start the 2016 return.
13. **Waiver for Failure to Take RMD** – TaxSlayer does not permit a request to waive the 50% additional tax for failure to take a required minimum distribution (RMD). E-file the return without Form 5329 or the 50% additional tax. You can complete a fillable Form 5329 from irs.gov and use Notepad for the required statement that explains why the RMD was missed, that it has now been taken and the steps taken to ensure that future RMDs will be taken as required. The taxpayer will need to mail the paper Form 5329 with the statement to the same address as their normal Form 1040 IRS address.
14. **Form 5405 *First Time Home Buyers Credit*** – Be sure to check the *Check here if you purchased your home in 2008* box and then complete the three amount boxes on the Form 5405 entry page if the home is still the taxpayer's main home. Credits received in 2009, 2010 or 2011 are no longer subject to repayment or were due to be repaid in a prior year. Note – two forms are required if filing MFJ – ensure both forms are identical. A decendent's share of the 2008 "loan" is forgiven – the surviving spouse is not responsible torepay it.
15. **Form 1040X** – A voucher prints with the Form 1040X, but do not use it for anything. The Form 1040X **is** the voucher if a balance is due. The taxpayer should simply enclose a check with it.

General Note: As TaxSlayer continues to evolve, we will see more things start to work in a good way. We may also find additional issues. This places greater emphasis on a thorough quality review to make sure the final return is as accurate as possible.

Please know that your dedication and efforts are greatly appreciated!