| **Step** | **Form / Note** | **TSO Navigation Path / Screen Line** | **Learning Points** |
| --- | --- | --- | --- |
| **0** | **Intake Sheet** |  |  |
|  | SS Cards |  | On Intake/Interview Sheet, change first name of grandson to David, which is name on Social Security card |
|  | Notes |  | Fill in Page 1, shaded area, based on info in Notes:  - Question 1 – NO for all  - Question 2 – NO for all  - Question 3 – YES for all  - Question 4 – YES for all  - Question 5 – YES for all  Based on these answers & Pub 4012 (Page C-5), all 3 can be claimed as a Qualifying Child for dependency |
| **1** | **Intake Sheet** |  | **Basic Information** |
|  | Part II | Basic Information \ Filing Status | Use Chart on 4012 Page B-1 or TSO Filing Status Wizard to determine filing status. Click on appropriate circle. (Note: If you use TSO Wizard, you must still manually click circle; TSO will not automatically populate based on filing status it determines) |
|  | Part I | Basic Information \ Personal Information | TSO automatically populates spouse's last name the same as taxpayer's; change Kara's last name to Bryant |
|  |  |  | To enter a date, choose from drop-down menu or type without leading zeroes |
|  |  |  | Enter current street address & zip code; TSO will automatically populate city & state. TSO will also default populate the same state as the resident state as of 12/31 of the tax year. If the taxpayer has moved, change the resident state. TSO uses this to start the correct state return |
|  | 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 4 basic questions: |
|  |  |  | * 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 township for Pluckemin (Somerset-Bedminster Twp) |
|  |  |  | * Dependent's Health Care Coverage - Answer YES to indicate that dependents have health care coverage as of now. It does not matter if they 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 |
|  |  |  | * Gubernatorial Elections Fund - Answer NO to indicate that Karl does not wish to contribute to the Gubernatorial Elections Fund; answer YES for Kara |
|  |  |  | * NJ PINs - Enter any 5-digit PIN for taxpayer and spouse; does not have to be the same as Federal PINs. You do not have to remember these PINs |
|  |  |  | 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 |
|  |  | NJ Checklist | 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 State section later |
|  | Part II | * Disabled Row | Since neither Karl nor Kara is disabled, circle NO for both on the NJ Disability row for entry later in the State section |
|  | Part II  Notes | * Number of Dependents Under Age 22 that Attended College Full Time row | Since Kendra is under 22 and a full-time college student, note this information on NJ Checklist for entry later in the State section to claim an extra NJ dependency exemption |
|  | Part II | Basic Information \ Dependents/Qualifying Person | List information about first dependent (order does not matter). Add a separate screen for each additional dependent by clicking on the Add button  Kendra (TSO automatically populates last name the same as taxpayer’s) – Daughter, 12 months lived in home, full-time student at a post secondary education institution box checked  David Thomas (Name on SS card, so update last name automatically populated by TSO) Grandchild, 12 months lived in home  Carmen Bryant – Sister, 12 months lived in home, disabled box checked (type of disability - Unknown) |
| **2** | **W-2** |  | **W-2 for Acme School** |
|  |  | Federal section \ Income \ Enter Myself \ Wages and Salaries (W-2) |  |
|  | Box e | Employee | Click on Kara as the employee |
|  |  | Employee's Name & Address fields | TSO populates Kara's name & address info from the Basic Information section. If printed W-2 info is different, make necessary changes |
|  | Boxes b & c | Employer's EIN & Name & Address fields | Enter Employer ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed W-2; address can frequently change. Make necessary corrections |
|  | Box 1 | Wages, Tips | Enter $13,817 as Federal wages. TSO automatically populates the amounts in Boxes 3-6. If you change Box 3 or 5 amount to match printed W-2, TSO will recalculate Box 4 or 6  TSO transfers Box 1 wages to 1040 Line 7 |
|  | Box 2 | Federal Tax Withheld | Enter $987 as Federal tax withheld  TSO transfers to 1040 Line 64 |
|  | Box 12 | Box 12 Codes & Amounts | Enter code DD & $765. This represents the total cost that employee and employer paid for employer-sponsored health coverage plan |
|  | Box 14 | Box 14 Codes & Amounts | Choose the type of other NJ withholdings listed in Box 14 from the drop-down menu & enter associated amounts  TSO transfers the appropriate withholdings to Sch A Line 5a for the State Income Taxes deduction. Total is now $106  Since the 414H entry does not qualify for Form 8880 Credit for Qualified Retirement Savings Contributions, choose "Retirement (Not in Box 12) - Do not carry to Form 8880" from the drop-down menu. The 414H amount will not flow through to Sch A Line 5a either |
|  | Box 15 | State Name  State EIN | Choose New Jersey from the drop-down menu  Enter employer's state ID number (if not automatically populated) |
|  | Box 16 | State Wages | TSO automatically populates state wages with the amount from Box 1. Verify that state wages match the paper W-2  TSO transfers to NJ 1040 Line 14. |
|  | Box 17 | State Income Tax | Enter $693 as state income tax withheld  TSO transfers to NJ 1040 Line 48 & to Sch A line 5a. Line 5a is now $799 |
| **3** | **W-2** |  | **W-2 for Acme Corp** |
|  |  | Federal section \ Income \ Enter Myself \ Wages and Salaries (W-2) | Add another copy of W-2 Wage Statement by clicking on ADD button |
|  | Box e | Employee | Check that this W-2 is for Karl |
|  |  | Employee's Name & Address fields | TSO populates Karl's name & address info from the Basic Information section. If printed W-2 info is different, make necessary changes |
|  | Boxes b & c | Employer's Name & Address fields | Enter Employer ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed W-2; address can frequently change. Make necessary corrections |
|  | Box 1 | Wages, Tips | Enter $28,134 as Federal wages. TSO automatically populates the amounts in Boxes 3-6  On the printed W-2, the amounts for SS wages in Box 3 & Medicare wages in Box 5 are different than Box 1 amount because Karl made a pre-tax contribution to a 401K plan which is not included in Federal wages (shown as Code D in Box 12). Manually change the amounts in Boxes 3 & 5 to match the printed W-2 ($31,088). TSO recalculates Boxes 4 & 6  TSO transfers Box 1 wages to 1040 Line 7. Total wages is now $41,951 |
|  | Box 2 | Federal Tax Withheld | Enter $2,176 as Federal tax withheld  TSO transfers to 1040 Line 64. Total Federal tax withheld is now $3,163 |
|  | Box 12 | Box 12 Codes & Amounts | Enter code D & $2,954. This represents Karl's contribution to his 401K plan |
|  |  |  | Enter code DD & $3,252. This represents the total cost that employee and employer paid for employer-sponsored health coverage plan |
|  | Box 13 | Box 13 | Ensure that Retirement Plan is checked. This is important in calculating the deductibility of IRA contributions |
|  | Box 14 | Box 14 Codes & Amounts | Choose the type of other NJ withholdings listed in Box 14 from the drop-down menu & enter associated amounts  TSO transfers the appropriate withholdings to Sch A Line 5a for the State Income Taxes deduction. Line 5a is now $1,023 |
|  | Box 15 | State Name  State EIN | Choose New Jersey from the drop-down menu  Enter employer's state ID number (if not automatically populated) |
|  | Box 16 | State Wages | TSO automatically populates state wages with the amount from Box 1. Since Box 16 state wages are different than the Federal wages, manually change Box 16 to match the printed W-2 ($29,334).  Further probing indicates that the difference between Box 1 & Box 16 wages is due to pre-tax Federal, after-tax NJ dental insurance premiums withheld from Karl's pay. Note this information on the NJ Checklist for entry later in the State section. Note $1,200 on the Pre-Tax (Federal) / Post Tax (NJ) Medical from W-2(s) row  TSO transfers Box 16 NJ wages to NJ 1040 Line 14. Total NJ wages is now $43,151 |
|  | Box 17 | State Income Tax | Enter $1,674 as state income tax withheld..  TSO transfers to NJ 1040 Line 48 (now $2,367) & to Sch A line 5a (now $2,697) |
| **4** | **Notes** |  | **Seller Financed Mortgage** |
|  |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Seller Financed Interest Income |  |
|  |  | Payer's Name | Enter Charles Campbell as person who paid the interest |
|  |  | Taxpayer, Spouse, or Joint | Check that the interest was paid to Karl, the taxpayer |
|  |  | Payer's SS # & Address | Enter the SS # and address for Charles Campbell |
|  |  | Interest Income | Enter $2,782 as the interest received  TSO transfers to Sch B Line 1, to 1040 Line 8a & to NJ 1040 Line 15a |
|  |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Did You Have Interest in a Foreign Bank Account? | Since the Kents have more than $1,500 in taxable interest income, they have to answer 2 questions:   * Did you at any time during this tax year, have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? * Did you at any time during the tax year receive a distribution from, or were the grantor of, or transferor to, a foreign trust?   TSO assumes the answers to these 2 questions are No. If that is not true, you must go to the Interest in a Foreign Bank screen to check the appropriate answers |
| **5** | **1099-INT** |  | **1099-INT for Acme Bank** |
|  |  |  | In the Federal section of TSO, you must enter Federal taxable interest income on a separate screen from Federal tax-exempt interest |
|  |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Interest Income, Form 1099-INT | Click on Add button to add an Interest and Dividends form. Click on Interest Income, Form 1099-INT to enter Federal taxable interest |
|  | Payer's Name & Address | Payer's Name | Enter Acme Bank as payer's name |
|  | Recipient's Name & Address | Taxpayer, Spouse, or Joint | Check that the interest was paid to Karl, the taxpayer |
|  | Box 1 | Interest Income | Enter $456 as taxable income |
|  | Box 2 | Early Withdrawal Penalty | Enter $46 as an early withdrawal penalty  On the Federal 1040, the entire amount of interest is reported on 1040 Line 8a (total now $3,238), while the early withdrawal penalty is transferred as an adjustment to income on 1040 Line 30  On the NJ 1040, the early withdrawal penalty is netted against the taxable interest, and the difference ($410) is transferred to NJ 1040 Line 15a. Total NJ taxable interest is now $3,192 |
| **6a** | **1099-INT** |  | **1099-INT for Acme Brokerage Statement (Interest only)** |
|  |  |  | In the Federal section of TSO, you must enter Federal taxable interest income on a separate screen from Federal tax-exempt interest |
|  |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Interest Income, Form 1099-INT | Click on Add button to add an Interest and Dividends form. Click on Interest Income, Form 1099-INT to enter Federal taxable interest |
|  | Payer's Name & Address | Payer's Name | Enter Acme Brokerage as payer's name |
|  | Recipient's Name & Address | Taxpayer, Spouse, or Joint | Check that the interest was paid to Karl, the taxpayer |
|  | Line 1 | Interest Income (Line 1) | Enter $123 for taxable interest  TSO transfers to Sch B Line 1, to 1040 Line 8a (total now $3,361) & to NJ 1040 Line 15a (total now $3,315) |
|  | Line 3 | Interest on U.S. Savings Bonds and Treasury obligations (Box 3) | Enter $2,455 for taxable interest on U.S. Savings Bonds. (Not tax-exempt for Federal unless it is used for education expenses, not house repairs)  TSO transfers to Sch B Line 1 & to 1040 Line 8a. Total Federal taxable interest is now $5,816  Interest on U.S. Savings Bonds is not taxable in NJ. Therefore, enter $2,455 on the line that says, "Amount of Interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return"  Choose NJ from the drop-down menu  TSO transfers to NJ 1040 Line 15b for tax-exempt interest (total $2,455), instead of Line 15a for taxable interest (total still $3,315) |
|  | Line 4 | Federal Tax Withheld (Box 4) | Enter $245 for tax withheld  TSO transfers to 1040 Line 64. Total Federal tax withheld is now $3,408 |
| **6b** |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10 | Click on Add button to add an Interest and Dividends form. Click on Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10 to enter Federal tax-exempt interest |
|  | Payer's Name & Address | Payer's Name | Enter Acme Brokerage as payer's name |
|  | Recipient's Name & Address | Taxpayer, Spouse, or Joint | Check that the interest was paid to Karl, the taxpayer |
|  | Line 8 | Interest Income | Enter $338 as Federal tax-exempt interest  TSO transfers to 1040 Line 8b |
|  | Line 8  New Jersey Muni Bond line under Interest Detail |  | Interest on NJ bonds are tax-exempt for NJ as well as for the Federal. Therefore, you do not have to do anything special for NJ once you have entered the Federal tax-exempt interest  TSO transfers $149 to NJ 1040 Line 15b. Total NJ tax-exempt interest is now $2,604 |
|  | Line 8  Georgia 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 Add/Edit button to add/edit state taxable interest items.  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 15a. Total NJ taxable interest is now $3,504 |
| **7a** | **1099-DIV** |  | **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 button to add an Interest and Dividends form. Click on Dividend Interest Income, Form 1099-DIV to enter taxable dividends |
|  | Line 1a | Ordinary Dividends | Enter $232 as ordinary dividends  TSO transfers to Sch B Line 5, to 1040 Line 9a, & to NJ 1040 Line 16 |
|  | Line 1b | Qualified Dividends | Enter $125 as qualified dividends  TSO transfers to 1040 Line 9b |
|  | Line 2a | Capital Gain to Schedule D | Enter $69 as capital gains distribution  TSO transfers to 1040 Line 13 & to NJ 1040 Line 18 |
|  | Line 3 | Nondividend Distributions | Enter $2 as nondividend distributions  Nondividend distributions are return of capital. They are not taxable when they are distributed. They should be subtracted from the cost basis when the investment is sold |
|  | Line 6 | Foreign Tax Withheld | Enter $4 as foreign tax paid  TSO transfers to 1040 Line 48 |
| **7b** |  | Federal section \ Income \ Enter Myself \ Interest and Dividends (1099-INT, 1099-DIV) \ Interest or Dividend Income \ Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10 | Click on Add button to add an Interest and Dividends form. Click on Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10 to enter Federal exempt-interest dividends |
|  | Payer's Name & Address | Payer's Name | Enter Acme Brokerage as payer's name |
|  | Recipient's Name & Address | Taxpayer, Spouse, or Joint | Check that the interest was paid to Karl, the taxpayer |
|  | Line 10 | Interest Income | Enter $200 as exempt interest dividends received from a regulated investment company (mutual fund)  TSO transfers to 1040 Line 8b. Total Federal tax-exempt interest is now $538 (Step 6 $338 + Step 7 $200) |
|  |  |  | 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 Line15b and GIT-5 for more details, as well as NJ Special Handling document on TaxPrep4Free Page 2 |
|  | Line 10 Select US General Fund |  | The Select US General Fund is not a NJ Qualified Investment Fund since it is not NJ specific. Therefore, the exempt interest attributable to NJ is taxable (10%), as well as the part attributable to all other states (60%), together totaling 70%. The only part that is tax exempt on the NJ return is the part attributable to the US obligations (30%) |
|  | Line 10 Select NJ Qualified Fund |  | The Select NJ Qualified Fund is considered a "NJ Qualified Investment Fund," so the exempt interest attributable to NJ obligations (65%) is tax exempt, along with the part for US obligations (20%). Only the part attributable to all other states (15%) is taxable |
|  |  | Taxable State Interest Item | Click on Add/Edit button 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  Enter $85 ($70+15) as the amount that should be added as taxable for NJ  TSO transfers the taxable interest to NJ 1040 Line 15a. Total NJ taxable interest is now $3,589 (Step 4 $2782 + Step 5 $456-46=410 + Step 6 $123+189=312 + Step 7 $70+15=85)  TSO transfers the tax-exempt interest to NJ 1040 Line 15b. Total NJ tax-exempt interest is now $2,719 (Step 6 $2,455+149=2,604 + Step 7 $30+85=115) |
| **8** | **1099-G**  **Notes** |  | **Prior Year State Income Tax Refund - 1099-G, Line 2** |
|  |  | Federal section \ Income \ Enter Myself \ State & Local Refunds (1099-G Box 2) |  |
|  | Line 2 | State Tax Refunds | Enter $437 NJ income tax refund from prior year (Use link to NJ Form 1099-G Inquiry on TaxPrep4Free.org Preparer page to verify amount) |
|  |  | Last Year's Standard/Itemized Deductions | Enter $13,844 as prior year total itemized deductions |
|  |  | Last Year's Filing Status | Choose Married Filing Jointly from the drop-down menu as the filing status for last year |
|  |  | Check here if the Taxpayer claimed the Over 65 deduction last year. | Since Karl was born in 1944, he would have been eligible to claim the Over 65 deduction on last year's return. Check that box for Taxpayer |
|  |  |  | Last year's refund is only taxable to the extent that itemized deductions for last year exceeded the standard deduction. TSO knows that the standard deduction was $13,600. It calculates that the Kent's itemized deductions ($13,884) exceeded the standard by $284. Therefore, only $284 of the refund is taxable this year  TSO transfers the taxable part of last year's refund to 1040 Line 10. A NJ refund is not taxable on the NJ return |
| **9** | **1099-MISC** |  | **1099-MISC and Self Employment for Acme Services** |
|  |  | Federal section \ Income \ Enter Myself \ Form 1099-MISC |  |
|  | 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-MISC; address can frequently change. Make necessary corrections |
|  | Recipient's Name & Address | Whose 1099-MISC is this? | Check that the 1099-MISC is for Kara |
|  |  | Recipient Information | TSO populates Kara's name & address info from the Basic Information section. If / 1099-MISC info is different, make necessary changes |
|  | Box 7 | Nonemployee Compensation | Enter $1,637 as nonemployee compensation |
|  |  | Create a New Schedule C Income from Business | Once you click Continue, TSO will ask you, "Where would you like to add the income?" Click on +New to "Create a New Schedule C Income from Business" |
|  | **Notes** |  | **Sch C for Acme Services** |
|  |  | **Basic Information**  Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Basic Information about Your Business |  |
|  |  | Business Owner | Click on Kara as owner of the business |
|  |  | Name & Address | Leave blank since there is no separate business name |
|  |  | Business Code | Enter 561410 as business code. Click on "Click here for a list of business codes" to search for the appropriate code. You can also use links to Sch C Business Codes or NAICS Search Tool on TaxPrep4Free.org Preparer’s page. Use Ctrl + F within any of those tools to search for specific words |
|  |  | Description of Business | When you enter the business code, TSO will automatically populate the description associated with that code, "Document preparation" |
|  |  | **Questions About the Operation of Your Business**  Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Questions About the Operation of Your Business |  |
|  |  | Accounting Method | Click on Cash as the accounting method (anything else is Out of Scope) |
|  |  | Method Used to Value Closing Inventory | Click on Not Applicable since there is no inventory for this business |
|  |  | Material Participation | Click on box that says, " Check here if you "materially participated" in the operation of this business during the tax year."  None of the other boxes should be checked since they do not apply. |
|  |  | **Income**  Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Income |  |
|  |  | Gross Receipts or Sales | TSO has already included $1,637 as Total Income from Form 1099-MISC. Now enter the $1,082 in cash income Kara received from other doctors  TSO transfers the total income ($2,719) to Sch C Line 1 |
|  |  | **General Expenses**  Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ General Expenses |  |
|  |  | Office expense | Enter $113 as office expense ($45 for paper + $68 for printer cartridge). You could choose a different category, such as supplies instead  TSO transfers the total expenses ($113) to Sch C Line 18 |
|  |  | **Car & Truck Expenses**  Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Car & Truck Expenses |  |
|  |  | Description of Vehicle | Enter any description of vehicle (could use PERSONAL CAR) |
|  |  | Date You Placed Your Vehicle in Service for Business Purposes | Enter 01/02/2011 as the date the car was placed into service for the business |
|  |  | Business Miles | Enter 420 business miles (35 miles x 12 months). TSO calculates the business mileage expense of $242 (420 miles x $.575 per mile) |
|  |  | Other | Enter 10,000 as other miles |
|  |  | Checkboxes | Check box that says, "Check if you have (or your spouse has) another vehicle available for personal use." |
|  |  |  | Check box that says, "Check if your vehicle was available for personal use during off-duty hours." |
|  |  |  | Check box that says, "Check if you have evidence to support your deduction." |
|  |  |  | Check box that says, "If yes, check if the evidence is written." |
|  |  |  | TSO transfers the $242 business mileage expense to Sch C Line 9 & all the other car & truck info to Sch C Part IV. Total business expense is now $355 ($113 + 242), which TSO populates on Sch C Line 28 |
|  |  | **Sch C** | TSO calculates net profit/loss from business of $2,364 (losses are Out of Scope)  TSO transfers the net profit to 1040 Line 12 & to NJ 1040 Line 17 |
|  |  | **Sch SE for Spouse** | **Self-Employment Tax & Adjustment for Acme Services** |
|  |  | Line 12 | Kara has to pay self-employment tax on her self-employment income from Sch C. This tax consists of Social Security tax (12.4%) and Medicare tax (2.9%) for a total of 15.3%. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners  TSO calculates that Kara's self-employment tax is $334  TSO transfers the self-employment tax to 1040 Line 57 |
|  |  | Line 13 | Kara is allowed to deduct one-half (the employer-equivalent portion) of her self-employment tax as an adjustment to income  TSO calculates that the deduction for one-half of the self-employment tax is $167  TSO transfers the deduction for one-half of the self-employment tax to 1040 Line 27 |
| **10** | **Notes** |  | **Capital Loss Carryover** |
|  |  | Federal section \ Income \ Enter Myself \ Capital Gain and Losses (Schedule D) \ Other Capital Gains Data |  |
|  |  | Long Term Loss Carryover from 2014 | Enter $2,534 as long-term loss carryover (enter as a positive number)  TSO transfers to Sch D Line 14  NJ does not allow carryover losses |
| **11a** | **1099-B** |  | **Brokerage Statement for Acme Brokerage (Capital Gains/Losses Only) - Part 1 - 1099-B** |
|  |  | Federal section \ Income \ Enter Myself \ Capital Gain and Losses (Schedule D) \ Capital Gains and Loss Items |  |
|  | Description | Description of Property | Enter 50 RIMI (# of shares+symbol of stock) as description of property |
|  | Date Acquired | Date Acquired | Enter 9/1/2002 as date acquired |
|  | Date Sold | Date Sold | Enter 5/10/2015 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 |  |
|  | Description | Description of Property | Enter 100 RIMI (# of shares+symbol of stock) as description of property |
|  | Date Acquired | Date Acquired | Enter 9/1/2002 as date acquired |
|  | Date Sold | Date Sold | Enter 10/20/2015 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 |  |
|  | Description | Description of Property | Enter 100 RUST (# of shares+symbol of stock) as description of property |
|  | Date Acquired | Date Acquired | Enter 11/1/1999 as date acquired |
|  | Date Sold | Date Sold | Enter 9/23/12015 as date sold |
|  | Proceeds | Sales Price | Enter $1,700 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 $3,200 as cost basis |
|  |  | Adjustments to Gain or Loss | Enter $100 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-39 to see that this indicates a wash sale. Choose Nondeductible Loss From a Wash Sale from the drop-down menu as the adjustment explanation |
|  |  |  | TW calculates a long-term loss of $1,400 ($1,700-3,200+100) |
|  |  | Click Save and Enter Another |  |
|  | Description | Description of Property | Enter 65 RIDE (# of shares+symbol of stock) as description of property |
|  | Date Acquired | Date Acquired | Click on Alternate Option for the date acquired. Choose Inherited - Long Term from the drop-down menu |
|  | Date Sold | Date Sold | Enter 10/20/2015 as date sold |
|  | Proceeds | Sales Price | Enter $8,663 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 (Fair Market Value on date of uncle's death) |
|  |  | Adjustment to Gain or Loss | No adjustment to profit/loss needed |
|  |  |  | TW calculates a long-term gain of $1,441 |
|  |  | 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 $21,051, Cost $19,965, Adjustments to Gain or Loss $100, Gain or Loss $1,186) |
| **11b** | **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) \ Other Capital Gains Data |  |
|  |  |  | 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 A (short-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 (B, D, E). Also, since the cost basis on all these transactions has been reported to the IRS, there is no need to mail in copies of the brokerage statement and Forms 8949 |
|  | Description | Description of Property | Enter Acme Brokerage as description of property |
|  | Date Acquired | Date Acquired | Click on Alternate Option under dated acquired. Choose Various - Short Term from the drop-down menu |
|  | Date Sold | Date Sold | Enter 4/15/2015 or 12/31/2015 as date sold |
|  | Proceeds | Sales Price | Enter $13,7000 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 $13,600 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 from the drop-down menu as the adjustment explanation |
|  |  |  | TSO calculates a long-term gain of $100 |
|  |  | Click Save and Enter Another |  |
|  |  | **8949 with Code A Checked** | **Short-Term Capital Gains with Cost Reported to IRS** |
|  |  |  | TSO transfers the short-term consolidated capital gains transaction with the cost basis reported to the IRS |
|  |  | **Sch D** | **All Capital Gains Transactions** |
|  |  | Line 1b | TSO transfers totals from 8949 with Code A Checked (Sales Price $13,700, Cost $13,600, Gain or Loss $100) |
| **11c** | **1099-B** |  | **Brokerage Statement for Acme Brokerage (Capital Gains/Losses Only) - Part 3 - 1009-B** |
|  |  | Federal section \ Income \ Enter Myself \ Capital Gain and Losses (Schedule D) \ Other Capital Gains Data |  |
|  |  |  | 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 total. Also, since the cost basis on all these transactions has been reported to the IRS, there is no need to mail in copies of the brokerage statement and 8949 |
|  | 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 12/15/2015 or 12/31/2015 as date sold |
|  | Proceeds | Sales Price | Enter $13,700 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 $13,600 as cost basis |
|  |  | Adjustments to Gain or Loss | Enter $0 as adjustment to gain or loss |
|  |  | Adjustment Explanation | Choose Reporting Multiple Transactions on a Single Row from the drop-down menu as the adjustment explanation |
|  |  |  | TSO calculates a long-term gain of $100 |
|  |  | Click Continue |  |
|  |  | **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 $13,700, Cost $13,600, Gain or Loss $100) |
|  |  | Line 7  Line 13  Line 14  Line 15 | TW totals everything on Sch D:  Net S/T Gain $100  Capital Gains Distribution (from 1099-DIV) $69  L/T Capital Loss Carryover -$2,534  Net L/T Capital Loss -$1,179 |
|  |  | **Sch D Pg 2** | **All Capital Gains Transactions** |
|  |  | Line 16 | Bottom line for Sch D is a net long-term loss of -$1,079  On the Federal 1040, up to ‑$3,000 of capital loss can be applied against other ordinary income, so TSO transfers the full -$1,079 Sch D loss to the 1040 LIne 13. There is no loss left to carry over to next year  Since NJ does not allow capital loss carryover, only the transactions from the current tax year are transferred to NJ 1040 Line 18. Calculating all the gains & losses from the brokerage statement + the capital gains distribution, the NJ net gains from disposition of property is $1,455 |
| **12** | **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 |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Karl |
|  |  | Recipient Information | TSO populates Karl'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 ($838) |
|  | Box 2a | Taxable Amount | TSO automatically transfers the gross amount from Box 1 into Box 2a as the taxable amount ($838). If the taxable amount should be something different, you must manually change it |
|  | Box 7 | Distribution Code | Enter code 7 for normal distribution  Ensure that the IRA box is checked in Box 7 so that amounts will transfer to 1040 Line 15 for IRAs, not Line 16 for pensions |
|  |  |  | TSO transfers the taxable amount in Box 2a ($838) to 1040 Line 15b  TSO also transfers the taxable amount in Box 2a to NJ 1040 Line 19a. However, the entire line 19a amount is offset by the NJ Pension Exclusion on Line 27a. Therefore, there is no change to the NJ Taxable Income on Line 39 |
| **13** | **1099-R** |  | **1099-R for Acme Trust** |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) \ Add or Edit a 1099-R |  |
|  |  | Click on Add button to Add a Form 1099-R IRA/Pension Distribution(s) |  |
|  | 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 |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Karl |
|  |  | Recipient Information | TSO populates Karl'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 ($11,755)  TSO transfers the gross amount to 1040 Line 15a, which now totals $12,593 ($11,755 + 838) |
|  | Box 2a | Taxable Amount | Enter $0 for the taxable amount of pension or leave blank, since the code G in Box 7 indicates that this is a direct IRA trustee-to-trustee rollover  Nothing is transferred to 1040 Line 15b or to NJ 1040 Line 19 |
|  | Box 7 | Distribution Code | Enter code G  Ensure that the IRA box is checked in Box 7 |
|  |  | Rollover or Disability | Click on line that says, "Check here if all/part of the distribution was rolled over, and enter the rollover amount." Enter $11,755 as the amount rolled over |
| **14** | **1099-R** |  | **1099-R for Defense Finance & Accounting Svc** |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) \ Add or Edit a 1099-R |  |
|  |  | Click on Add button to Add a Form 1099-R IRA/Pension Distribution(s) |  |
|  | 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 |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Karl |
|  |  | Recipient Information | TSO populates Karl'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 ($1,200) |
|  | Box 2a | Taxable Amount | TSO automatically transfers the gross amount from Box 1 into Box 2a as the taxable amount ($1,200). If the taxable amount should be something different, you must manually change it  TSO transfers the taxable amount to 1040 Line 16b & to NJ 1040 Line 19a  Since a military pension is not taxable for NJ, note this amount on the NJ checklist for entry later in the state section to subtract it from NJ pension income. Enter -$1,200 on the Adjustments to: Line 19a row |
|  | Box 7 | Distribution Code | Enter code 7 for a normal distribution |
| **15** | **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 |  |
|  |  | Click on Add button to Add a Form 1099-R IRA/Pension Distribution(s) |  |
|  | 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 |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-R is for Karl |
|  |  | Recipient Information | TSO populates Karl'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 the gross amount to 1040 Line 16a. The total gross for the two pensions is now $19,825 |
|  | Box 2a | Taxable Amount | Since the taxable amount is not determined, you must use the Simplified Method Worksheet to determine how much of the pension is taxable  Click on link to Worksheet under Box 2a |
|  |  | Simplified Method Qualification | Read the instructions on when you should use the Simplified Method. Click Continue to proceed since Karl can use this method |
|  |  | Simplified General Rule Worksheet | TSO populates the Gross Distribution Amount from Box 1  Enter $5,864 as the plan cost at the annuity start date (from Box 9b)  Enter 1/1/2014 as the starting date of the annuity  Do not check that this is a joint or survivor annuity  Enter 69 as the age of recipient at start date  Enter 12 as number of months paid in 2015  Enter $335 as amounts previously recovered |
|  |  | Simplified General Rule Worksheet Summary | TSO calculates that $18,290 of the pension is taxable.  Click Continue to use the calculated taxable amount on your 1099-R  TSO transfers $18,290 to Box 2a as the taxable amount. It also transfers that amount to 1040 Line 16b (total now $19,490) & to NJ 1040 Line 19a |
|  |  |  | Since this pension also contains a tax-exempt amount, that amount should be noted on the NJ checklist for entry later in the state section on the NJ excludable pension line 19b. Enter $335 ($18,625 - 18,290) on the Adjustments to: Line 19b row |
|  |  |  | Alternatively, you can use the link to the Annuity Calculator on the TaxPrep4Free .org Preparer page to calculate the taxable part of the pension (instead of the TSO Worksheet). This calculator allows you to enter the recipient's birth date, and it will calculate the age at the pension start date. This may eliminate potential miscalculations. It also can be printed out to track the recovered amounts and remaining cost for next year's return. It shows that the amount excluded from taxation will be the same each year that pension is received, except if the first and last years are partial years  If you use this calculator, you must manually enter the taxable amount in Box 2a |
|  | Box 2b | Taxable Amount Not Determined | Click on Taxable Amount Not Determined box |
|  | Box 4 | Federal Income Tax Withheld | Enter $1,715 as Federal income tax withheld  TSO transfers to 1040 Line 64. Total Federal tax withheld is now $5,123 |
|  | Box 7 | Distribution Code | Enter code 7 for a normal distribution |
|  |  |  | The NJ Refund amount did not change for the previous 3 1099-Rs because the taxable amount of those pensions on NJ 1040 Line 19a was totally offset by the Pension Exclusion on Line 27a. When this Acme Pensions 1099-R is entered, Line 19a ($20,328) now exceeds the Pension Exclusion ($20,000), so NJ Taxable Income and Refund now change |
|  |  |  | The rule for the NJ Pension Exclusion states that the exclusion cannot be greater than the taxable pension amount on Line 19a. It also states, " When you and your spouse file a joint return and only one of you is 62 or older, you may still claim the maximum pension exclusion. However, only the pension, annuity, or IRA withdrawal of the spouse who is 62 or older or disabled may be excluded." Therefore, if the Acme Pensions 1099-R was for Kara (who is under 62), it would not be included in the calculation for the pension exclusion. Karl's taxable pension income would still be under the full $20,000 pension exclusion amount, and some of the exclusion would be lost. All of this distribution (if for Kara) would be taxable |
| **16** | **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-1is this? | Check that the 1099-R is for Kara |
|  | Boxes B&A | Partnership's Name | Enter Acme Partners as the partnership's name |
|  |  | Partnership's EIN | Enter Partnership's EIN. TSO populates name & address if in database. Always check to make sure it matches printed K-1; address can frequently change. Make necessary corrections |
|  |  |  | 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 $123 as interest income  TSO transfers to 1040 Line 8a (Total now $5,939) & NJ 1040 Line 15a (Total now $3,712) |
|  | Box 6a | Ordinary Dividends | Enter $234 as ordinary dividends  TSO transfers to 1040 Line 9a (Total now $466) & NJ 1040 Line 16 (Total now $466) |
|  | Box 6b | Qualified Dividends | Enter $200 as qualified dividends  TSO transfers to 1040 Line 9b (Total now $325) |
|  | Box 7 | Royalties | Enter $650 as royalties  TSO automatically creates a Sch E & transfers $650 to Line 4 as royalties income. It then transfers that amount to 1040 Line 17 & NJ 1040 Line 22 |
|  | Box 8 | Net short-term capital gain (loss) | Enter $123 as net short-term gain  TSO transfers to Sch D Line 5 |
|  | Box 9a | Net long-term capital gain (loss) | Enter $234 as net long-term gain  TSO transfers to Sch D Line 12  The bottom-line total for Sch D Line 16 is now a -$722 net loss, which TSO transfers to 1040 Line 13  The total for NJ 1040 Line 18 is now $1,812 (previous total $1,455 + $123 short-term gain from K-1 + $234 long-term gain from K-1) |
|  | Box 18A | Tax Exempt Interest Income | Enter $321 as tax exempt interest income  TSO transfers to 1040 Line 8b (Total is now $859) & NJ 1040 Line 15b (Total is now $3040) |
| **17** | **1099-G** |  | **1099-G (Unemployment) for NJ Department of Labor** |
|  |  | Federal section \ Income \ Enter Myself \ Unemployment Compensation (1099-G Box 1) \ Add or Edit a 1099-G |  |
|  | 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-G; address can frequently change. Make necessary corrections |
|  | Recipient's Name & Address | Whose 1099-R is this? | Check that the 1099-G is for Kara |
|  |  | Recipient Information | TSO populates Kara's address info from the Basic Information section. If printed 1099-G info is different, make necessary changes |
|  | Box 1 | Unemployment Compensation | Enter $2,550 as unemployment compensation  TSO transfers to 1040 Line 19  Unemployment is not taxable for NJ, so nothing is transferred to the NJ 1040 |
|  | Box 4 | Federal tax withhold | Enter $120 as Federal tax withheld  TSO transfers to 1040 Line 64. Total Federal tax withholding is now $5,243 |
| **18** | **SSA-1099** |  | **SSA-1099 for Social Security** |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) \ Social Security Benefits/RRB-1099 |  |
|  | Box 5 | Taxpayer's Social Security Benefit | Enter $13,682 as Karl's SS benefit. Always enter the amount in Box 5. It will be in pink on a real SSA-1099  TSO transfers to 1040 Line 20a  Since Social Security is not taxable for NJ, nothing is transferred to the NJ 1040 |
|  |  |  | TW calculates how much of the Social Security is taxable on 1040 Line 20b (based on 1/2 of the Social Security + other gross income on 1040). If other income changes, TW will re-calculate the taxable part of Social Security as needed |
|  | Box 6 | Taxpayer's Federal Tax Withheld | Enter $360 as Federal Tax withheld  TSO transfers to 1040 Line 64. Total Federal tax withheld is now $5,603 |
|  | Description box | Taxpayer's Medicare Premiums | Enter $1,985 as Karl's Medicare premiums.  You can use the Medicare premiums scratch pad on the TaxPrep4Free.org Resource page to document if there are payments for more than one type of 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, medical expenses over 2% of NJ Gross Income on Line 28 can be claimed as a deduction on Line 30. TW calculates the 2% ($52,483 x .02 = $1,050). It then subtracts the 2% from the Medicare premiums ($1,985 - 1,050) to determine the amount of medical expenses to claim. The medical deduction causes NJ Taxable Income and Refund to change |
| **19a** | **W-2G** |  | **W-2G for New Jersey Lottery** |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ Gambling Winnings (W-2G) | This step only deals with gambling winnings. Any offsetting gambling losses are dealt with in the Itemized Deductions section |
|  | Winner's Name & Address | This W-2G Issued To: | Click that the W-2G is for the Spouse |
|  |  | Payee's Address | TSO populates Kara'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 |
|  | Box 1 | Gross Winnings | Enter $200 as gross winnings.  Since the Federal taxes gross gambling winnings, TSO transfers $200 to 1040 Line 21 and populates GAMBLING WINNINGS as the Other Income Type |
|  |  |  | NJ does not tax lottery winnings less than or equal to $10,000 in one instance. Since this lottery winnings is only $200, it is not taxable for NJ  However, you must still note this information on the NJ Checklist in order to calculate the net gambling winnings for entry later in the State section. Note -$200 on the NJ Line 23 - Gambling Winnings row as NJ Lottery Winnings (<=10,000) |
|  | Box 2 | Date Won | Enter 4/14/2015 as date won |
|  | Box 3 | Type of Wager | Enter LOTTERY as type of wager |
| **19b** | **W-2G** |  | **W-2G for Acme Casino** |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ Gambling Winnings (W-2G) | Click Add button to add a W-2G gambling winning screen  This step only deals with gambling winnings. Any offsetting gambling losses are dealt with in the Itemized Deductions section |
|  |  | Click on Add button to Add a W-2G Gambling Winning |  |
|  | Winner's Name & Address | This W-2G Issued To: | Click that the W-2G is for the Spouse |
|  |  | Payee's Address | TSO populates Kara'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 |
|  | Box 1 | Gross Winnings | Enter $1,100 as gross winnings.  Since the Federal taxes gross gambling winnings, TSO transfers to 1040 Line 21. Total is now $1,300 |
|  |  |  | Note this information on the NJ Checklist in order to calculate the net gambling winnings for entry later in the State section. Note +$1,100 on the NJ Line 23 - Gambling Winnings row as Total Gambling Winnings |
|  | Box 2 | Date Won | Enter 5/15/2015 as date won |
|  | Box 3 | Type of Wager | Enter BACCARAT as type of wager |
|  | Box 4 | Federal tax withheld | Enter $110 as Federal tax withheld. Total is now $5,713 |
| **20** | **1099-C** |  | **1099-C Cancellation of Debt for Acme Cards** |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ Cancellation of Debt (1099-C, Form 982) \ Cancellation of Debt (Form 1099-C) |  |
|  | Debtor's Name & Address | Taxpayer or Spouse? | Click on Kara as the owner of the 1099-C |
|  | Creditor's Name & Address  Creditor's Federal ID # | Creditor's Name & Federal Identification Number | Enter Acme Cards as the creditor's name.  Enter EIN |
|  | Box 2 | Amount of Debt Cancelled | Enter $625 as the amount of debt cancelled  TSO transfers to 1040 Line 21 & to NJ 1040 Line 25 |
|  |  |  | Since cancellation of debt income is not taxable in NJ, we must exclude the $625 from NJ 1040 Line 25. Note this information on the NJ Checklist for entry later in the State section. Note -$625 on the Adjustments to: Line 25 - Other Income row on the 1099-C line |
| **21** | **Notes** |  | **Educator Expenses** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ Educator Expenses |  |
|  |  | Spouse's Educator Expenses | Enter $240 as Kara's educator expenses  TSO transfers to 1040 Line 23 as an adjustment to income |
|  |  | Sch A, Line 21 | If the amount spent was greater than the maximum $250 allowed as Educator Expenses, you could claim the excess over $250 as Unreimbursed Employee Expenses (subject to 2% of AGI limitation) - N/A for this problem |
| **22** | **Notes** |  | **Alimony Paid** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ Alimony Paid |  |
|  |  | Recipient's SSN | Enter SS # of ex-wife  TSO transfers to 1040 Line 31b |
|  |  | Amount Paid | Enter $3,500 as amount of alimony paid to ex-wife  TSO transfers to 1040 Line 31a & to NJ 1040 Line 31 |
| **23** | **Notes** |  | **IRA Contributions** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ IRA Deduction |  |
|  |  | Enter amount of IRA Contribution made by Spouse | Enter $3,000 as the amount of Kara's contribution to her traditional IRA. All of the contribution will be deductible this tax year. The tax will be deferred until the money is withdrawn from the account  TSO transfers the traditional IRA contribution to 1040 Line 32 as an adjustment to income |
|  |  |  | Contributions to a traditional IRA are not deductible for NJ. However, if the taxpayer keeps track of amounts contributed, he/she may be able to exempt that amount from NJ taxation when the money is taken out of the IRA |
|  |  |  | There does not seem to be a place to enter the Roth IRA contribution, which is not deductible when it is made. However, qualified distributions from the Roth IRA will be tax free when withdrawn if certain requirements are met. Earnings on the money will also be tax free when distributed |
|  |  | Taxpayer Retirement Plan | Click that Karl has a retirement plan. This is known because the Retirement Plan box is checked on Karl's W-2 (Box 13) |
|  |  | Spouse Retirement Plan | Click that Kara does not have a retirement plan. As far as we know, you can assume that because the Retirement Plan box is not checked on Kara's W-2 (Box 13) |
| **24** | **Notes** |  | **Student Loan Interest** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ Student Loan Interest Deduction |  |
|  |  | Total Interest Paid on Qualified Student Loans | Kara incurred the student loan to obtain her teaching degree. She is legally responsible to repay the loan. If student loan interest is paid by someone who is not legally liable for it (Kaleb), the payment is treated as received by the person who is legally liable (Kara), and the person legally liable is allowed to take the adjustment  Enter $268 as the total interest paid on qualified student loans  TSO transfers to 1040 Line 33 as an adjustment to income |
| **25a** | **Notes** |  | **Deductions - Medical & Dental Expenses** |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Medical & Dental Expenses | The IRS allows you to deduct qualified medical expenses that exceed 10% of your AGI or 7.5% if you or your spouse is 65 or older  NJ allows you to deduct qualified medical expenses that exceed 2% of NJ Gross Income |
|  | Medicare |  | Medicare premiums were already entered when Social Security SSA-1099 was entered. The premiums are included in medical expenses, but they do not show up on the Medical Deductions screen |
|  | Section 125 Medical (W-2) |  | Section 125 medical premiums that are withheld from a paycheck are pre-tax for the Federal. The employee already receives a benefit since the premiums are not included in Wages in Box 1 of the W-2. Therefore, they cannot also be claimed as a medical deduction  Section 125 medical premiums are after-tax for NJ. They are included in NJ Wages in Box 16. Therefore, they can be claimed as medical expenses on NJ 1040 Line 30 (Entry discussed later in State section) |
|  | Premiums for Marketplace Policies |  | The Kents purchased a Marketplace policy for Kendra and Dave (Step 33). 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 Kents are entitled to. Therefore, you must wait until Step 33b to enter these medical expenses |
|  | Doctor Bills | Amounts Paid to Doctors/Dentists | Enter $1,653 as doctor bills |
|  | Prescription Drugs | Prescriptions | Enter $965 for prescription expenses |
|  | Hospital Bills | Hospital Care | Enter $3,200 for hospital bills |
|  | Prescription Eyeglasses | Medical Aids or Other Medical Expenses | Enter $210 for David's prescription eyeglasses. It does not matter whether you enter them on the Medical Aids line or as Other Medical Expenses |
|  | Wheelchair | Medical Aids | Enter $290 for Carmen's wheelchair |
|  | Medical mileage | Medical Miles Driven | Enter 1,236 miles. TSO will calculates the amount that can be claimed based on $.23 per mile ($284) |
|  | Funeral expenses |  | Not deductible |
|  | Long Term Care Insurance | Qualified Long-Term Care Premiums | Click on Add Premiums button.  Choose Kara from the drop-down menu  Enter $4,000 as total premiums paid  TSO calculates the correct amount of long-term care premiums that can be claimed, based on Kara's attained age as of 12/31 ($3,800) |
|  |  |  | Total allowable medical expenses is now $12,387 |
|  |  |  | TSO calculates the amount that is greater than 7.5% of Federal AGI, since Karl is age 65 or older ($80,144 x .075 = $6,011). If both spouses were under 65, they could only claim medical expenses greater than 10% of AGI |
|  |  |  | TSO calculates an allowable Federal medical expense deduction of $6,376 ($12,387 - 6,011 = $6,376). If AGI changes due to later entries, TSO re-calculates the medical deduction automatically |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $9,072 vs. a Standard Deduction of $13,850. The Kents will still use the standard deduction at this point  TSO transfers $13,850 to 1040 Line 40 |
|  |  |  | TSO calculates the amount that is greater than 2% of NJ Gross Income ($53,108 x .02 = $1,062). It further calculates an allowable NJ medical expense deduction of $11,324 on NJ 1040 Line 30. This amount will change later when you enter the NJ After-Tax Medical Premiums from Karl's W-2 that were noted on the NJ Checklist for later entry in the State section |
| **25b** | **Notes** |  | **Deductions - Taxes You Paid** |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Taxes You Paid |  |
|  | **State Taxes Paid** |  | The Kents can claim either the state & local income taxes they have paid (Sch A Line 5a) **OR** the state sales tax (Line 5b), whichever is greater |
|  | **Sales Tax** | State and Local Sales Tax Paid | Click on Begin Sales Tax Worksheet |
|  |  | Sales Tax Worksheet | Select New Jersey from the drop-down menu |
|  |  |  | Enter 365 as number of days lived in the state |
|  |  |  | 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, and total income (includes AGI plus non-taxable income) |
|  |  | General Sales Tax Paid | In addition to the sales tax charts amount, the taxpayer can also claim sales tax paid on specific big-ticket items (auto, boat, home, and home building material)  Enter $2,100 as the amount of sales tax paid on a new car |
|  |  |  | TSO adds the sales tax paid on the car to the amount determined from the sales tax charts to calculate the total sales tax deduction on Sch A Line 5b ($3,077) |
|  |  | Comparison of State Income Tax vs. State Sales Tax | TSO compares the state income tax amount accumulated on Sch A Line 5a from Boxes 14 and 17 on the W-2s ($2,697) vs. the state sales tax on Line 5b ($3,077) to determine which is better to claim. It populates Sch A Line 5 with $3,077 and checks the general sales tax box |
|  | **Real Estate Taxes** | Real Estate Taxes (Non-Business Property) | On Sch A, the Kents can claim the property taxes they paid on their principal residence in NJ ($7,135) plus the property taxes on an empty lot in Georgia ($245)  Use the property tax scratch pad on TaxPrep4Free.org to document the total amount of property taxes they can claim.  Enter $7,380 as property taxes  TSO transfers to Sch A Line 6 |
|  |  |  | Total taxes you paid on Sch A Line 9 is $10,457 |
|  |  |  | The Kents meet the eligibility requirements to also claim the NJ property tax deduction/credit. Note the real estate tax information on the NJ Checklist for entry later in the State section. Note $7,135 on the Property Tax Paid row  Note: You can only claim the property taxes you paid on your principal residence; you cannot claim taxes on a second property for NJ |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $16,832 vs. a Standard Deduction of $13,850. The Kents will now start to use itemized deductions  TSO transfers $16,832 to 1040 Line 40 |
|  |  |  | Itemized deductons went up by $7,760 after the entries in this step, which appears to be less than the total of the amounts you actually entered. This is because the Sch A state income taxes on Line 5a were previously being claimed in Step 25b, since they were higher than the State Sales on Line 5b. Now that you entered the extra sales tax on the car, Line 5b becomes higher than Line 5a, but not by the full amount of the car sales tax |
| **25c** | **Notes** |  | **Deductions - Interest You Paid** |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Mortgage Interest & Expenses \ Mortgage Interest Reported on Form 1098 | Click on Add Interest and Points Paid |
|  | Lender's Name & Address | Lender's Name | Enter Acme Mortgage as the lender's name |
|  | Box 1 | Interest Paid | Enter $3,164 as the mortgage interest paid  TSO transfers to Sch A Line 10 |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $19,996 vs. a Standard Deduction of $13,850. The Kents will use itemized deductions  TSO transfers $19,996 to 1040 Line 40 |
| **25d** | **Notes** |  | **Deductions - Gifts to Charity** |
|  | **Cash Gifts to Charity** | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Gifts to Charity\ Cash Gifts to Charity | You can enter cash gifts to charity one by one, or you can group all cash contributions as one single entry |
|  |  | Total Cash Amount Donated | Click on Override button  Use a scratch pad on TaxPrep4Free.org to document all the cash donations ($1,650 + 225 +250 = $2,125)  Enter $2,125 as total cash amount donated  TSO transfers to Sch A Line 16 |
|  | **Non-Cash Gifts to Charity** | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Gifts to Charity\ Non-Cash Gifts to Charity |  |
|  |  | Non-Cash Less Than or Equal to $500 | Enter $350 as non-cash amount donated  TSO transfers to Sch A Line 17 |
|  |  |  | Donations to a political party are not deductible |
|  |  |  | Total gifts to charity is $2,475 |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $22,471 vs. a Standard Deduction of $13,850. The Kents will use itemized deductions  TSO transfers $22,471 to 1040 Line 40 |
| **25e** | **Notes** |  | **Deductions - Miscellaneous Deductions** |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Miscellaneous Deductions |  |
|  | Gambling Losses | Gambling losses to the extent of gambling winnings | Use a scratch pad on TaxPrep4Free.org to total Kara's gambling losses ($612 + 432 = $1,044)  You can only claim losses up to the extent of the gambling winnings. Since Kara won a total of $1,300, you can claim the entire $1,044 of losses  Enter $1,044 as gambling losses  TSO transfers to Sch A Line 28  Note: Be sure to not enter a number larger than the actual gambling winnings, since TSO will use whatever number you enter |
|  |  |  | Note this information on the NJ Checklist for entry later in the State section. Note -$1,044 on the NJ Line 23 - Gambling Winnings row as Gambling Losses |
|  |  |  | Itemized Deductions on Compare Deductions screen are now $23,515 vs. a Standard Deduction of $13,850. The Kents will use itemized deductions  TSO transfers $23,515 to 1040 Line 40 |
|  |  |  | 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 40 as appropriate |
| **26** | **Notes** |  | **Residential Energy Credit** |
|  |  | Federal section \ Deductions \ Enter Myself \ Credits \ Residential Energy Credit (Form 5695) |  |
|  |  | Main Home in the U.S. | Click on the line that says, " Check here if the energy efficiency improvements or residential energy property costs were made to your main home located in the United States." |
|  |  | New Construction | Do not click on the line that says, "Check here if any of these improvements were related to the construction of this main home" |
|  | **Nonbusiness Energy Property** | Address of Main Home | Click on line that says, "Use my main address." TSO populates the Kent's address from the Basic Information section |
|  |  | Insulation Material or Systems Specifically and Primarily Designed to Reduce Heat Loss or Gain in Your Home | Enter $175 for insulation materials |
|  |  | Exterior Windows | Enter $7,450 for new windows |
|  |  | Credit taken on your 2014 year Form 5695, line 30 | Enter $305 for the Nonbusiness Energy Property credit that the Kents took on last year's return |
|  |  |  | There is a maximum amount for this credit of $500 (windows $200) for all years after 2005. Since the Kents have already claimed a credit of $305, there is only $195 left to claim on the credit this year  TSO creates Form 5695 to claim this credit. It transfers $195 to 1040 Line 53 as a nonrefundable credit |
| **27** | **Notes** |  | **Child & Dependent Care Expenses** |
|  |  | Federal section \ Deductions \ Enter Myself \ Credits \ Child Care Credit (Form 2441) | Click on Add button to add a child care provider |
|  | **Child Care Provider Info** | ID Number | Click on EIN |
|  |  | Provider's Name | Enter Acme Day Care as the provider's name |
|  |  | Provider's Address | Enter provider's address |
|  |  | Amount Paid to Provider for Child Care | Enter $1,100 for child care amount paid to provider |
|  |  |  | Click on Step 2 Dependents |
|  | **Dependent Info** | Click on Edit button for Dave |  |
|  |  | Qualifying Dependent Expenses | Enter $1,100 as the amount paid for qualifying dependent expenses for Dave |
|  |  |  | You do not need to go to Step 3 since there are no other qualifying persons that were not listed in Step 2 |
|  |  |  | The total amount paid to the providers of the child care must equal the total expenses paid for all qualifying dependents |
|  |  |  | Click on Continue to Page 2 |
|  | **2411 Page 2** | Additional Income for Taxpayer for This Credit section | The Credit for Dependent Care Expenses is for individuals who paid for child care so that they could work. For this credit to calculate, the taxpayer and the spouse, if applicable, must each have earned income. There are exceptions to the rule for disabled or full-time students who were unable to work. The Additional Income section on Page 2 is used for these exceptions. It helps you calculate how much to add to income for the nonworking spouse for the purpose of calculating this credit only. No income would actually be added to income on the tax return  Since the Kents both had earned income on their W-2s, the additional income part of Page 2 does not need to be completed |
|  |  | Employer Paid Dependent Care Benefits | If the employer had paid any dependent care benefits for the employee and noted that amount on the W-2 in Box 10, TSO would automatically subtract that amount when calculating the credit. If the employee received any employer paid dependent care benefits that were not included on the W-2, you would enter the amount manually on this line  The Kents did not receive any employer paid dependent care benefits |
|  |  |  | TSO creates Form 2441 to claim this credit. It calculates that the allowable credit is $220, 20% of qualified expenses  TSO transfers to 1040 Line 49 as a nonrefundable credit |
| **28** | **Notes** |  | **Federal Payments & Estimates** |
|  | **Federal Payments** | Federal section \ Payments & Estimates \ Federal Estimated Payments for 2015 |  |
|  |  | Amount Applied from Prior Year Refund | Enter $200 as amount applied from last year's Federal tax refund toward this year's taxes |
|  |  | Estimated Federal Tax Paid on or before 6/15/2015 | Enter the $100 estimated tax payment made on 6/14/2015 |
|  |  | Estimated Federal Tax Paid on or before 9/15/2015 | Enter the $100 estimated tax payment made on 9/15/2015 |
|  |  |  | TSO transfers the total of the amount applied from last year's refund ($200) plus the 2 estimated tax payments ($200) as Federal tax payments made in 2015 ($400) to 1040 Line 65 |
|  | **Vouchers for 2016 Estimated Taxes** | Federal section \ Payments & Estimates \ Vouchers for Next Year's Estimated Payments |  |
|  |  | Quarterly Payments | Enter $120 as the amount the Kents would like to pay each quarter  TSO will include 4 vouchers in the print package for the Kents |
|  |  |  | Go over with the Kents how to make out their checks, where to send the payments, due dates, etc. as you review their return with them |
| **29** | **Notes** |  | **State Payments & Estimates** |
|  | **State Payments** | Federal section \ Payments & Estimates \ State Estimated Payments |  |
|  |  | Amount Applied from Prior Year Refund | Enter $100 as amount applied from last year's NJ tax refund toward this year's taxes |
|  |  | Estimated State Tax Paid on or before 6/15/2015 | Enter the $250 estimated tax payment made on 6/14/2015 |
|  |  | Estimated State Tax Paid on or before 9/15/2015 | Enter the $240 estimated tax payment made on 9/15/2015 |
|  |  | State Name | Choose New Jersey from the drop-down menu |
|  |  |  | TSO transfers the total of the amount applied from last year's refund plus the 2 estimated payments ($100 + $490 = $590) to NJ 1040 Line 50 |
|  |  |  | TSO also transfers $590 to Sch A Line 5a as State Income Taxes paid in 2015. Total itemized deductions are now $23,726 |
|  |  |  | Since the itemized deductions increased, the Federal refund also went up |
| **30** | **Notes** |  | **1098-T for Education Expenses** |
|  |  | Federal section \ Deductions \ Enter Myself \ Credits \ Education Credits (1098-T) | In this step, you are going to determine the best option for claiming the education expenses paid for Kendra. You must enter the info for 3 different options to see which yields the maximum benefit for the Kents:   * Tuition & Fees Deduction (T&F deduction) * Lifetime Leaning Credit (LLC) * American Opportunity Credit (AOC) |
|  |  |  | To determine the amount of qualified education expenses that can be claimed, you must subtract the amount of any scholarships/grants from the tuition and fees payments ($7,750 - 5,000 = $2,750). Then you must evaluate what other expenses qualify for each option. See chart on Pub 4012 Page J-1 for details  Qualified Expenses:   * T&F deduction - tuition & fees plus amounts paid for required books, etc. that must be paid to the educational institution ($2,750 + 250 = $3,000). Amount paid for computer cannot be claimed * LLC - tuition & fees plus amounts paid for required books, etc. that must be paid to the educational institution ($2,750 + 250 = $3,000). Amount paid for computer cannot be claimed * AOC - tuition & fees plus amounts paid for books, supplies & equipment needed for a course of study, whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance ($2,750 + 250 + 400 = $3,400). The amount paid for a computer can only be claimed if it is a requirement for enrollment or attendance. Since the computer is not required in this case, the $850 cannot be claimed |
|  |  | Eligible Student | Be sure that Kendra is selected from the drop-down menu |
|  | **Tuition & Fees Deduction** |  | Click on T&F deduction |
|  |  | Qualified Expenses | Enter $3,000 |
|  |  |  | Note the Federal ($3,189) & NJ ($2,488) refund monitors before trying the next option  Even though education expenses do not pertain to the NJ return, you should include the NJ refund amount in your calculations. This is because the NJ refund could change if the taxpayer is eligible for an earned income credit since the NJ EITC is based on a percentage of the Federal EIC |
|  | **Lifetime Learning Credit** |  | Click on LLC |
|  |  | Qualified Expenses | Enter $3,000 |
|  |  | Institution 1 | Enter name & address of educational institution |
|  |  | 2015 1098-T | Enter Yes that student received Form 1098-T from this institution for 2015 |
|  |  | 2014 1098-T | Enter No that student did not receive Form 1098-T from this institution for 2014 with Box 2 filled in and Box 7 checked |
|  | 1098-T Filer's Federal ID # | Institution's Federal ID # | Enter the institution's Federal ID # |
|  |  | Claimed Credit on 4 Prior Tax Returns | Enter No that the Hope Scholarship Credit or American Opportunity Credit has not already been claimed on 4 prior tax returns |
|  | 1098-T Box 8 | Half-Time Student | Enter Yes that the student was enrolled at least half time |
|  |  | Completion of First 4 years of Post-Secondary Education | Enter No that the student did not complete the first 4 years of post-secondary education before 2015 |
|  |  | Drug Felony | Enter No that the student was not convicted, before the end of 2015, of a felony for possession or distribution of a controlled substance |
|  |  |  | Note the Federal ($3,309) & NJ ($2,488) refund monitors before trying the next option |
|  | **American Opportunity Credit** |  | Click on AOC |
|  |  | Qualified Expenses | Enter $3,400 |
|  |  | Other Questions | All the other questions that you answered for the LLC will still be answered for the AOC |
|  |  |  | Note the Federal ($5,059) & NJ ($2,488) refund monitors. This is the most beneficial way for the Kents to claim Kendra's education expenses, so you can leave everything on this screen as is |
|  |  |  | TSO creates Form 8863 to claim the AOC. The tax credit is based on 100 percent of the first $2,000 of qualifying expenses, plus 25 percent of the next $2,000. Therefore, the total credit is $2,350  TSO calculates a nonrefundable credit of 60% of the total ($1,410). It transfers that amount to 1040 Line 50  TSO also calculates a refundable credit of 40% of the total ($940). It transfers that amount to 1040 Line 68 |
| **31** | **Notes** |  | **1098-T for Education Expenses** |
|  |  | Federal section \ Deductions \ Enter Myself \ Credits \ Education Credits (1098-T) | Click on the Add button to Add a second Form 8863 - Education Credit screen for Kara |
|  |  |  | In this step, you are going to determine the best option for claiming the education expenses paid for Kara  Kara is not eligible for the AOC; she is not pursuing a degree nor is she at least a half-time student  Since the courses were not related to Kara’s self-employment, they cannot be a Sch C business expense either  Therefore, you can just try 2 options to see which yields the maximum benefit for the Kents:   * Tuition & Fees Deduction (T&F deduction) * Lifetime Leaning Credit (LLC) |
|  |  |  | The amount of qualified education expenses that can be claimed for either option is just the $1,000 paid for tuition & fees. The course-related books Kara purchased cannot be claimed because they are not required for enrollment, which is a condition for either option |
|  |  | Eligible Student | Be sure that Kara is selected from the drop-down menu |
|  | **Tuition & Fees Deduction** |  | Click on T&F deduction |
|  |  | Qualified Expenses | Enter $1,000 |
|  |  |  | Note the Federal ($5,217) & NJ ($2,488) refund monitors before trying the next option |
|  |  |  | The T&F deduction lowers the Kents AGI by $1,000. Since they are in the 15% tax bracket, they should save $150 in taxes. However, the refund calculated using this option ($5,217) is $158 higher than the refund in Step 30 ($5,059). The extra $8 in tax savings occurred because the medical expense deduction on Sch A also increased. The amount of medical expenses that can be claimed is the amount that exceeds 7.5% of the Kents AGI. As AGI increases, so does the medical deduction |
|  | **Lifetime Learning Credit** |  | Click on LLC |
|  |  | Qualified Expenses | Enter $1,000 |
|  |  | Institution 1 | Enter name & address of educational institution |
|  |  | 2015 1098-T | Enter Yes that student received Form 1098-T from this institution for 2015 |
|  |  | 2014 1098-T | Enter No that student did not receive Form 1098-T from this institution for 2014 with Box 2 filled in and Box 7 checked |
|  | 1098-T Filer's Federal ID # | Institution's Federal ID # | Enter the institution's Federal ID # |
|  |  | Claimed Credit on 4 Prior Tax Returns | Enter No that the Hope Scholarship Credit or American Opportunity Credit has not already been claimed on 4 prior tax returns |
|  | 1098-T Box 8 | Half-Time Student | Enter No that the student was enrolled at least half time. Based on this answer, TSO knows that Kara is not eligible for the AOC. Therefore, it does not ask any other questions that pertain to AOC |
|  |  |  | Note the Federal ($5,259) & NJ ($2,488) refund monitors. Since this is a better option than the T&F deduction, leave everything on this screen as is |
|  |  |  | TSO creates Form 8863 to claim the LLC. This tax credit is based on 20% of the first $10,000 of qualified education expenses you paid for all eligible students. Since Kendra did not claim the LLC, Kara can claim 20% of her full $1,000 expenses.  TSO calculates a nonrefundable credit of $200. It transfers that amount to 1040 Line 50. When this $200 is added to Kendra's nonrefundable credit of $1,410, the total on Line 50 is now $1,610 |
| **32** | **Notes** |  | **IRS Identification Pin** |
|  |  | Federal section \ Miscellaneous Forms \ IRS Identification Pin |  |
|  |  | IRS Identity Protection Pin | Enter 142536 on the line for Kendra |
| **33a** | **Notes** | **Health Insurance Section** | **ACA Health Insurance** |
|  |  | Health Insurance section |  |
|  |  | Health Insurance Coverage in 2015 | Answer Yes to question, "Did you or your family have health insurance at any time in 2015?" |
|  |  | Marketplace Coverage | Answer Yes to question, "Did you purchase health insurance via HealthCare.gov or a State Marketplace?" (for Kendra and Dave) |
|  |  | Verify Your Household Members | You do not need to do anything on this screen since there are no additional household members that are listed as a dependent nor are there additional household members that are neither a spouse or a dependent |
|  |  | 12-Month Coverage | Answer No to question, "Was your entire household insured for all 12 months of 2015?" since Kara, Kendra and Dave were not insured all year |
|  |  | # of Months Insured | Enter 12 months of coverage for Karl and Carmen  Enter 9 months of coverage for Kara  Enter 10 months of coverage for Kendra and Dave |
|  |  | Insured Months for Kara | Check April through December boxes for Kara's minimum essential coverage (MEC) |
|  |  | Insured Months for Kendra | Check January through June and September through December for Kendra's MEC |
|  |  | Insured Months for Dave | Check January through June and September through December for Dave's MEC |
|  |  | 1095-A or Advance Premium Tax Credits | Answer Yes to question, "Did you receive a 1095-A statement or any Premium Tax Credits (APTCs) to assist you in paying for your health care for 2015?" |
|  |  | Full-year coverage on 1095-A | Answer No to question, "Do all Forms 1095-A include coverage for January through December, with no changes in monthly amounts?" since the 1095-A does not show any amounts for July through December |
|  |  | Monthly APTC Information | Enter the numbers from Part III Lines 21 - 26 Columns A - C of the 1095-A. You can use copy/paste to make data entry easier |
|  |  | Dependents Modified AGI (If Filing Requirement) | You do not have to enter anything on this screen since none of the Kent dependents had a Federal filing requirement (see Pub 4012 Page ACA-9 for details) |
|  |  | Health Care Exemptions Eligibility | Answer Yes to question, "Did you receive an exemption certificate from a marketplace, or qualify for exemptions due to circumstances?" Kendra and Dave qualify for a short coverage gap exemption |
|  |  |  | You can click on the links at the bottom of the screen for help from the Marketplace website to determine if the Kents can claim the affordability exemption or a health care coverage exemption. They do not qualify |
|  |  | Gross Income Below Filing Threshold | Do not check the box that says, "Are you claiming a hardship exemption because your gross income is below the filing threshold?" The Kents' gross income is too high |
|  |  |  | You can answer the following 4 questions the same for both Kendra and Dave, since their health care coverage information is the same. Answer the questions for Kendra and then click on the Add button to add another exemption for Dave |
|  |  | Health Insurance/Exemption | Choose Kendra/Dave from the drop-down menu as the name of the individual |
|  |  | Marketplace Exemption | Answer No to question, "Do you have a marketplace-issued certificate for this exemption or going to apply for an exemption?" Kendra/Dave is not going to apply to the Marketplace for an exemption; you will claim an exemption on the tax return |
|  |  | Exemption Type | Choose "Short gap in coverage" from the drop-down menu as the exemption type |
|  |  | Months that Exemption Applies | Check boxes for July and August since Kendra/Dave had a short coverage gap of less than 3 months |
|  |  |  | Kara does not qualify for any exemption, so you should not complete the Health Insurance/Exemption screen for her. She will have to pay a Shared Responsibility Payment (SRP) for the months she did not have coverage |
|  |  |  | TSO calculates Kara's SRP as $296 and populates that amount on 1040 Line 61 |
|  |  |  | TSO completes Form 8965 to claim the short coverage exemptions for Kendra and Dave.  TSO lists Kendra and Dave in Part III and claims exemption type B for July and August for them both |
|  |  |  | TSO completes Form 8962 to calculate the Premium Tax Credit (PTC) that the Kents are eligible for  In Part I, TSO calculates the Kents' monthly contribution amount of $655, based on their household income as a percent of the Federal poverty line (297%)  In Part II, TSO calculates the amount of PTC that the Kents can claim. It compares the Kents' monthly contribution amount ($655 - 8962 Column c) to the premiums for the Second Lowest Cost Silver Plan available in their area through the Marketplace ($720 - 8962 Column b)). It then compares the $65 difference to the monthly enrollment premium ($600 - 8962 Column a). The smaller amount is what they can claim as a PTC for each month they had the Marketplace policy (January - June).  Their total PTC is calculated on Line 24 ($390). The Kents got Advance PTCs of $300 (8962 - Column f) that were sent directly to the insurance carrier to help pay their premiums. Therefore, they are still entitled to an additional $90 of PTC on their tax return. (8962, Line 26)  TSO transfers the net PTC to 1040 Line 69 |
| **33b** | **Notes** |  | **ACA Health Insurance - Marketplace Premiums on Sch A** |
|  |  |  | The Kents can claim the premiums they paid for the Marketplace policy for Kendra and Dave as a medical expense on Sch A. The total cost of the policy they bought was $3,600 (Form 1095-A Column A total). Healthcare.gov paid $300 to the insurance company on the Kents' behalf during the year as an Advance Premium Tax Credit (Form 1095 Column C total). Therefore, the Kents out-of-pocket expenses during the year were $3,300. However, when you complete the Kents income tax return, you also see that they are entitled to a net premium tax credit of $90 on 1040 Line 69. This is the additional PTC they will get after you reconciled the 1095-A form. So they will only pay $3,210 out of pocket in total |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Medical & Dental Expenses | Enter $3,210 on medical and dental insurance line  Total itemized deductions are now $26,936, which the Kents will claim on 1040 Line 40 |
|  |  |  | **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 from the Federal. Now you will enter that information into the State section |
| **34** | **NJ Checklist** |  | **NJ Checklist - Basic Information** |
|  |  |  | You need to click Continue a number of times when you are on a NJ screen until you get back to the original State screen. It is only then that TSO will recalculate the refund monitors |
|  |  | State section \ Edit \ Enter Myself \ Basic Information | You answered most of the Basic Information questions when the NJ return was started in Step 1. It may appear that TSO did not save all of your answers because some of those questions still say Select in the Answer field. If your answer was the same as TSO' default answer, it will not populate the answer on this screen. Any answers that are different than the default will show your answer  There are a few additional questions that may still need to be completed, based on the client's situation |
|  | Disabled row | Were you disabled as of 12/31/2015?   * Taxpayer * Spouse | Answer No on both the taxpayer and spouse lines since neither was disabled |
|  | Number of dependents under age 22 that attended college full time row | Enter the number of dependents under age 22 claimed on your federal return that attended college | Enter 1 for Kendra who is a full-time college student under age 22 |
| **35** | **NJ Checklist** |  | **NJ Checklist - Income Subject to Tax** |
|  |  | State section \ Edit \ Enter Myself \ Income Subject to Tax |  |
|  | NJ Line 23 - Gambling Winnings row | Enter Taxable Gambling Winnings | You should have already noted total gambling winnings (+$1,300 from Steps 19a & 19b), any NJ lottery winnings (<= $10,000) (-$200 from Step 19a) & gambling losses (-$1,044 from Step 25e) on the NJ Checklist. Calculate the net winnings ($1300 - 200 - 1044 = $56)  Enter $56 as taxable gambling winnings  TSO transfers to NJ 1040 Line 23 |
|  | Adjustments to Line 19a row | Enter Military Pension or Survivor's Benefit Payments Received - Taxpayer | You should have already noted the military pension amount from Step14  Enter -$1,200 to subtract the military pension from NJ pension income on NJ 1040 Line 19a |
|  | Adjustments to Line 19b row | Tax-Exempt Pensions and Annuities | You should have already noted the amount excluded from tax on the pension in Step 15  Enter $335 as the tax-exempt pension amount  TSO transfers to NJ 1040 Line 19b |
|  | Adjustments to Line 25 | Taxable Amount of Scholarships included on Federal Return | You should have already noted the amount of the cancelled debt from Step 20  Enter -$625 to subtract the cancelled debt from NJ 1040 Line 25 Other Income |
| **36** | **NJ Checklist** |  | **NJ Checklist - Subtraction from Income** |
|  |  | State section \ Edit \ Enter Myself \ Subtractions from Income |  |
|  | Pre-Tax (Federal)/ Post-Tax (NJ) Medical from W-2s row | Enter any Medical Premiums that You Did Not Include on Your Federal Return Because They Were Deducted on a Pre-Tax Basis | You should have already noted the amount of the NJ after-tax medical premiums from the W-2 in Step 3  Enter $1,200 as the after-tax medical amount  TSO adds this amount to any other NJ medical expenses already on NJ 1040 Line 30 |
| **37** | **NJ Checklist** |  | **NJ Checklist - Credits** |
|  |  | State section \ Edit \ Enter Myself \ Credits |  |
|  | Property Tax row | Did You Meet Property Tax Eligibility Requirements? | Answer Yes to indicate that the Kents meet the requirements to claim a NJ property tax deduction\credit |
|  |  | Enter Property Taxes Paid | You should have already noted the amount of the property taxes that the Kents paid on their principal residence from Step 25b. Remember that they cannot claim the property taxes that they paid on the empty lot in Georgia  Enter $7,135 as property taxes |
|  |  | Were You a Homeowner in 2015? | Answer Yes since the Kents were homeowners last year |
|  |  | Block Information | Enter 50001 as the block # of the Kents' residence  TSO transfers to NJ 1040 Page 1 |
|  |  | Lot Information | Enter 00002 as the lot # of the Kents' residence  TSO transfers to NJ 1040 Page 1 |
|  |  |  | TSO determines whether it is more beneficial for the Kents to claim a NJ property tax deduction or credit. In this case, the deduction is better  TSO transfers the $7,135 total property taxes paid to NJ 1040 Line 37a  TSO transfers the $7,135 deduction that it calculates to NJ 1040 Line 38 |
| **38** | **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 Kents owe based on their NJ gross income (The Estimated Use Tax Worksheet referenced on the TSO screen does not currently work in TSO Practice Lab)  Enter $84 for use tax  TSO transfers to NJ 1040 Line 45 |
| **39** | **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 Kents would like to pay each quarter  TSO will include 4 vouchers in the print package for the Kents  Go over with the Kents how to make out their checks, where to send the payments, due dates, etc. as you review their return with them |
|  |  | **E-File Section** |  |
|  |  |  | Resolve any warnings that TSO displays before moving on to e-filing |
| **40** | **Intake Sheet** |  | **E-File - Return Type** |
|  | Part VII | Federal Return Type | Per the Intake Sheet, the Kents want to have their refund direct deposited  Choose Direct Deposit from the drop-down menu |
| **41** | **Notes** |  | **E-File - Tax Preparation & E-File Information** |
|  |  |  | The fees section does not apply to us |
|  |  | Client Email | Enter KarkandKara@mail.com as the Kents' email |
|  |  |  | The E-file PINs are automatically generated |
| **42** | **Notes** |  | **E-File - State Return(s)** |
|  |  | State Return Type | Per their interview, the Kents want to have their NJ refund direct deposited also  Choose Direct Deposit from the drop-down menu |
| **43** | **Notes** |  | **E-File - Taxpayer Bank Account Information** |
|  |  | Name of Bank | Enter Your Bank as the name of the Kents' bank |
|  |  | Type of Account | Choose Checking as the type of bank account that will be used for the direct deposit |
|  |  | Routing Transit Number | Enter 325070760 as the routing number of the Kents' bank account |
|  |  | Confirm Routing Transit Number | Confirm that 325070760 is the routing number |
|  |  | Bank Account Number | Enter 123654 as the Kents' bank account number |
|  |  | Confirm Bank Account Number | Confirm that 123654 is the bank account number |
| **44** | **Notes** |  | **E-File - Third Party Designee Info** |
|  |  | Name of Bank | Do not fill in anything in this section |
| **45** | **Intake Sheet**  **Notes** |  | **E-File - Questions** |
|  |  | Other than English what language is spoken in your home? | Choose None from the drop-down menu |
|  |  | Are you or your spouse a Veteran from the US Armed Force? | Choose Yes from the drop-down menu |
|  |  | Do you or any member of your household have a disability? | Choose Yes from the drop-down menu |
|  |  | Was this return prepared using a Virtual or Drop-Off method? | Ignore, since this does not pertain to us |
| **46** |  |  | **E-File - Submission** |
|  |  | Ready for Review | Click on the Ready for Review button. Click on Save and Exit Return |