| **Step** | **Form / Note** | **TW Screen** | **Learning Points** |
| --- | --- | --- | --- |
| **0** | **Intake Sheet** |  |  |
|  | SS Card |  | On Intake/Interview Sheet, change first name of taxpayer to Stephen, which is his name on his Social Security card |
|  | Notes |  | Fill in Page 1, shaded area, based on info in Notes:  - Question 1 – NO  - Question 2 – NO  - Question 3 – YES  - Question 4 – YES  - Question 5 – YES  Based on these answers & Pub 4012 Page C-5, Wanda can be claimed as a qualifying child for dependency |
| **1a** | **Intake Sheet** | **Main Info** |  |
|  | Part I | General Info | No need to enter spouse's last name, since it is the same as taxpayer’s |
|  |  | Filing Status | Use Chart on page B-1 in 4012 to determine filing status. The Hales can file MFJ |
|  |  | Blind Question, Spouse Column | Check Yes box for spouse since Paula is legally blind. TW will use this to calculate an additional amount for the Hales' standard deduction and an additional exemption for NJ |
|  | Part II | Dependents | List dependent:  Wanda Winters – Sister, Mo in Hm 12, Code 1 “Child Who Lives with You," EIC checked. Code is 1 even though Wanda is obviously not a child, but she is considered a Qualifying Child for dependency |
|  | Part VII | Presidential Election Campaign Fund, spouse | Check box next to Spouse since Paula wishes to donate $3 to the Presidential Election Campaign Fund |
| **1b** | **Intake Sheet** | **NJ 1040 Pg1** |  |
|  | Part I  Address | Municipality Code | Enter Municipality Code for Pluckemin (1801), which is where the Hales currently live. Can obtain from NJ 1040 instruction booklet or through Municipality Code Look-up tool in left column on TaxPrep4Free.org Preparer page |
|  |  | Address Change Line | Check box next to "Check if your address has changed," since the Hales have moved since they filed their last NJ tax return |
| **1c** | **Intake Sheet** | **NJ 1040 Pg 2** |  |
|  | Notes | Gubernatorial Election Campaign Fund | Check NO for Steven and YES for Paula |
|  |  | Line 13 | Wanda has health insurance so no need to do anything here |
| **1d** | **Intake Sheet** | **Prep Use** |  |
|  | Part VII | Line 11 | Answer NONE to language question |
|  |  | Line 12 | Answer YES to disabled question (Wanda) |
|  |  | Line 13 | Your initials |
|  |  | Line 14 | Do NOT fill in now – filled in by QR person |
| **2a** | **Prior Year Return** | **1040 Pg 1** | **NJ Income Tax Refund** |
|  |  | Box above Line 10 | Answer question NO since the Hales had a NJ balance due last year, not a refund |
| **2b** | **Prior Year Return** | **F/S Tax Pd** | **Prior Year NJ Tax Payments** |
|  |  | State Section  - Scratch Pad off "State and/or local balance due from previous years' returns paid in 2014" Line  Description  Line 1  Line 2 | Refer to NJ Special Handling document Page 11 on TaxPrep4Free.org    Because there were amounts paid for two separate prior NJ tax years, link to a scratch pad from the first line under the NJ estimated tax section. This line already has NJ at the beginning of the line (The second line is for previous year payments to states other than NJ.)  Use the scratch pad to document and total the two amounts  Enter F/S TAXES PAID-NJ TAXES PD FOR PRIOR YRS  Enter NJ TAXES PAID IN 2014 FOR 2013 TAXES = $203  Enter NJ TAXES PAID IN 2014 FOR 2011 TAXES = $42  You may still need to "get the red out" of this line even though you entered amounts on the scratch pad (Ctrl-Space or F3 or Toggle Estimated) |
|  |  | **Sch A** | **Prior Year NJ Tax Payments** |
|  |  | Line 5a | TW will transfer the $245 to Federal Sch A for state taxes paid in 2014 ($203 + 42)  Federal refund does not change because taxpayer is still claiming standard deduction. You can tell because Sch A does not have a green check in forms tree |
|  |  | **NJ 1040 Pg 3** | **Prior Year NJ Tax Payments** |
|  |  | Line 50 | TW will not transfer the $245 to NJ 1040 because they were not payments for 2014 taxes; they were paid in 2014 but were for taxes due in 2013 & 2011 |
| **2c** | **Prior Year Return** | **Sch D Pg 1** | **Capital Loss Carryover from Prior Year** |
|  |  | Line 6 | "Get the red out" since there is no short-term capital loss carryover from last year (Ctrl-Space or F3 or Toggle Estimated) |
|  |  | Line 14 | Enter the long-term capital loss carryover from last year ($15,454). No need to enter negative sign since TW already has the line in parentheses to indicate that this is a loss |
|  |  | **Sch D Pg 2** | **Capital Loss** |
|  |  | Line 16 | TW calculates a -$15,454 net capital loss at this point. It will automatically re-calculate the net as more capital gains transactions are entered in the return |
|  |  | **1040 Pg 1** | **Capital Loss** |
|  |  | Line 13 | Up to ‑$3,000 of capital loss can be applied against other ordinary income, so TW transfers -$3,000 to the 1040 |
|  |  | **Sch D Wkt2** | **Capital Loss Carryover to Next Year** |
|  |  | Line 13 | The amount of the capital loss above the -$3,000 applied against other income can be carried over to the next tax year. TW calculates that amount on the worksheet for Capital Loss Carryovers from This Year to Next Year. The carryover would be $12,454 at this point of the return ($15,454 - 3,000) |
|  |  | **NJ Sch B** | **Net Gains from Disposition of Property** |
|  |  | Line 1 | NJ does not allow capital loss carryovers so nothing is transferred to NJ Sch B |
|  |  | **NJ 1040 Pg 2** | **Net Gains from Disposition of Property** |
|  |  | Line 18 | NJ does not allow capital loss carryovers so nothing is transferred to NJ 1040 |
| **3** | **1099-R** | **1099R** | **Acme Pensions** |
|  |  | Payer's name & address fields | Enter Payer ID #. TW will populate name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change |
|  | Box 1 | Box 1 | Enter gross distribution amount ($11,793) |
|  | Box 2a | Box 2a | Since Box 2a on 1099-R is blank and there were no employee contributions to the pension, TW will treat the entire gross distribution in Box 1 as taxable on Federal 1040. Just "get the red out" |
|  | Box 4 | Box 4 | Enter Federal income tax withheld ($1,179) |
|  | Box 7 | Box 7 | Enter code 7 for a normal distribution |
|  |  | **1040 Pg 1** | **Acme Pensions** |
|  |  | Line 16b | TW transfers the taxable amount of the pension (same as the gross - $11,793) from the 1099R screen |
|  |  | **1040 Pg 2** | **Acme Pensions** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the 1099R ($1,179) |
|  |  | **NJ 1040 Pg 2** | **Acme Pensions** |
|  |  | Line 19a | TW transfers the taxable amount to the Pensions, Annuities and IRA Withdrawals line |
|  |  | Line 19b | There is no excludable amount for this pension, so nothing is needed on this line |
|  |  | Line 27a  Line 27b | The Hales are eligible for a pension exclusion to exclude up to $20,000 of their taxable pension from NJ income (eligibility requirements are age 62+, total income on Line 26 $100K or less)  However, the pension exclusion on Line 27a cannot exceed the taxable pension amount on Line 19a so Line 27a can only be $11,793 at this point  Since the Hales did not have enough taxable pension income to claim the full pension exclusion for which they are eligible, they can claim the remaining $8,207 as an Other Retirement Income Exclusion. Eligibility requirements are the same as for the pension exclusion, plus wages and business income must be less than $3,000  Pension exclusion totally offsets the taxable pension income, so still no NJ taxable income |
| **4a** | **1099-R** | **1099R** | **Acme Retirement** |
|  |  | Payer's name & address fields | Enter Payer ID #. TW will populate name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change |
|  | Box 1 | Box 1 | Enter gross distribution amount ($18,625) |
|  | Box 2a | Box 2a | This box will stay red until the Simplified Worksheet is completed. Do not "get the red out." TW will do that once the worksheet is done |
|  | Box 2b | Taxable Amount Not Determined Box | Check box |
|  | Box 4 | Box 4 | Enter the Federal income tax withheld ($1,715) |
|  | Box 7 | Box 7 | Enter code 7 for a normal distribution |
|  | Box 9b | Box 9b | Enter total employee contributions ($5,864) |
|  |  | Simplified Method Worksheet at bottom of 1099R | Since the Taxable Amount of the distribution is not given in Box 2b & there are employee contributions to this pension, you must use the Simplified Worksheet to determine the taxable amount of the distribution |
|  |  | Line 1 | Cost in plan at annuity starting date = $5,864 (from Box 9b) |
|  |  | Line 2 | Do not have to enter age of primary annuitant at annuity starting date since this is a joint & survivor plan (says Paula is covered by plan). Instead check "If the annuity starting date is after 12/31/1997 and this is a joint and survivor annuity."  At annuity starting date (1/1/2011), Steven was 74 and Page was 56, so their combined ages = 130. Click box for 121-130  NOTE: The Annuity Calculator in the right-hand column of the TaxPrep4Free.org Preparer page is very helpful in completing this Worksheet. It especially helps you avoid mistakes in calculating the age of the taxpayer and spouse at the annuity start date |
|  |  | Line 3 | TW calculates exclusion amount as $18.92 per month |
|  |  | Line 4 | Enter number of months for which payments were received this year = 12 |
|  |  | Line 5 | Enter amount recovered tax free in prior years = $681 ($227 per year for 2011, 2012 and 2013) |
|  |  | Line 6 | Exclusion for 2014 = $227 |
|  |  | Line 7 | Remaining cost in pension = $4,956 (TW calculates: original basis ($5,864) – tax free in 3 prior years ($681) – tax free in 2014 ($227) = cost remaining to recover ($4,956)  The amount excluded from taxation will always be the same each year that the pension is received, except if the first & last years are partial years |
|  |  | **1040 Pg 1** | **Acme Retirement** |
|  |  | Line 16a | TW transfers the full pension distribution from Box 1 ($18,625) to the Pensions and Annuities line. The total on this line is now $30,418 |
|  |  | Line 16b | TW subtracts the exclusion ($227) from the distribution in Box 1 ($18,625) & transfers the result ($18,398) to the taxable pension line. The total on this line is now $30,191 |
|  |  | **1040 Pg 2** | **Acme Retirement** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the 1099R ($1,715). Total Federal tax withheld should now be $2,894 |
| **4b** | **1099-R** | **NJ 1040 Pg 2** | **Acme Retirement** |
|  |  | Line 19a | TW transfers the taxable pension income ($18,398) |
|  |  | Scratch pad off Line 19b  Description  Line 1 | Manually enter the pension amount that is excludable from NJ income. See NJ Special Handling document Page 5 on TaxPrep4Free.org for details  Link from NJ 1040 Line 19b to a scratch pad  Enter NJ 1040 LINE 19B NONTAXABLE PENSION INC  Enter ACME RETIREMENT NONTAXABLE PENSION INCOME= $227 (From line 6 of the Simplified Method Worksheet)  The amount on Line 19b is not used for any other tax calculations; it enables NJ to reconcile to the totals in 1099-R Box 1  You must still "get the red out" of Line 19b even though you entered an amount on the scratch pad (Ctrl-Space or F3 or Toggle Estimated) |
|  |  | Line 27a  Line 27b | The Hales are eligible for a pension exclusion to exclude up to $20,000 of their taxable pension from NJ income (eligibility requirements are age 62 or older, total income on Line 26 $100K or less). The amount on the pension exclusion on Line 27a cannot be more than the Pension, Annuities, and IRA Withdrawals amount on Line 19a  The taxable total of the Hales' two pensions is now $30,191 on Line 19a, so they are eligible for the full $20,000 exclusion  Since they now claim the maximum pension exclusion, there is now nothing on the Other Retirement Income Exclusion line |
| **5** | **SSA-1099** | **1040 Wkt1** | **Social Security - Taxpayer** |
|  |  |  | Link from 1040 Line 20a or open from the tree |
|  |  | Taxpayer Column  - SS Received this Year Line  - Scratch Pad off Medicare Line  Description  Line 1  Line 2 | Always enter the amount in Box 5 ($15,972). It will be in pink on a real SSA-1099  If there are payments for more than one type of Medicare, link to a scratch pad from the "Medicare Parts B, C, and D" line to document  Enter 1040 WKT1 MEDICARE PREMIUMS TAXPAYER  Enter MEDICARE PART B FOR STEVEN = $1,385  Enter MEDICARE PART D FOR STEVEN = $810  You still have to "get the red out" on the Medicare line even though you entered amounts on the scratch pad (Ctrl-Space or F3 or Toggle Estimated) |
|  |  | **A Detail** | **Medicare Premiums** |
|  |  | Medicare from 1040 Wkt line | TW will transfer Steven's total Medicare premiums from the 1040 Wkt 1 as an itemized deduction ($2,195) |
|  |  | **NJ 1040 Pg 2** | **Medicare Premiums** |
|  |  | Line 28  Line 30 | 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% ($10,191 x 0.02 = $204). It then subtracts the 2% from the Medicare premiums ($2,195 - 204 = $1,991) to determine the amount of medical expenses to claim |
|  |  | **NJ 1040 Pg 3** | **Medicare Premiums** |
|  |  | Line 39 | NJ taxable income decreases due to the medical expenses deduction. Now $2,700 |
| **6** | **SSA-1099** | **1040 Wkt1** | **Social Security - Spouse** |
|  |  | Taxpayer Column  - SS Received this Year Line  - Medicare Line Scratch Pad  Description  Line 1  Line 2  - Federal Income Tax Withheld | Always enter the amount in Box 5 ($8,820). It will be in pink on a real SSA-1099  If there are payments for more than one type of Medicare, link to a scratch pad from the "Medicare Parts B, C, and D" line to document  Enter 1040 WKT1 MEDICARE PREMIUMS SPOUSE  Enter MEDICARE PART B FOR PAULA = $1,385  Enter MEDICARE PART D FOR PAULA = $810  Enter Federal income tax withheld ($550) |
|  |  | **A Detail** | **Medicare Premiums** |
|  |  | Medicare from 1040 Wkt line | TW will add Paula's total Medicare premiums ($2,195) from the 1040 Wkt1 to Steven's that were previously transferred ($2,195). The total itemized deduction for Medicare premiums is now $4,390 |
|  |  | **1040 Pg 2** | **Federal Tax Withheld** |
|  |  | Line 64 | TW transfers the Federal tax withheld from 1040 Wkt1 ($550). Total Federal tax withheld should now be $3,444 |
|  |  | **NJ 1040 Pg 2** | **Medicare Premiums** |
|  |  | Lines 28  Line 30 | TW re-calculates the allowable medical expense deduction. It calculates 2% of NJ Taxable Income on Line 28 ($10,191 x 0.02 = $204). It then subtracts the 2% from the combined Medicare premiums for Steven and Paula ($4,390 - 204 = $4,186) to determine the amount of medical expenses to claim |
|  |  | **NJ 1040 Pg 3** | **Medicare Premiums** |
|  |  | Line 39 | NJ taxable income decreases due to the medical expenses deduction. Now $505 |
| **7a** | **K-1** | **Interest Stmt** | **Acme Partners - Interest only** |
|  |  |  | We do not enter data from the Sch K-1form into a K-1 screen in TW. Instead, we enter the different amounts on the K-1 into the normal TW form for that type of income, such as the Interest Stmt, the Dividend Stmt, Sch D, Sch E. See Special Topic document for Sch K-1 in right column on TaxPrep4Free.org Preparer page |
|  |  | Line 1  - Payer Column  - Box 1 or 3 Amount Column | Enter SCH K-1 ACME PARTNERS  Enter $343 as taxable interest |
|  |  | **1040 Pg 1** | **Acme Partners - Interest only** |
|  |  | Line 8a | TW transfers the taxable interest from the Interest Stmt ($343) |
|  |  | Line 37 | K-1 interest is $343, but AGI increases by $514. This is because the extra interest income also raises the amount of Social Security that is taxable by $171 ($343 + 171 = $514). This will continue to happen as more income is added |
|  |  | **NJ 1040 Pg 2** | **Acme Partners - Interest only** |
|  |  | Line 15a | TW transfers the taxable interest from the Interest Stmt ($343) |
|  |  | Line 28  Line 39 | K-1 interest is $343, but NJ Taxable Income on Line 39 increases by $350. This is because the extra interest income increases NJ Gross Income on Line 28. That, in turn, reduces the Medical Expenses deduction on Line 30 by $7. (Remember, you can only claim the medical expenses that are greater than 2% of NJ gross income.) Thus, taxable income goes up $350 ($343 + 7). This will continue to happen as more income is added |
| **7b** | **K-1** | **Dividend Stmt** | **Acme Partners - Dividend only** |
|  |  | Line 1  - Payer Column  - Ordinary Dividends Column  - Qualified Dividends Column | Enter SCH K-1 ACME PARTNERS  Enter $474 as ordinary dividends  Enter $101 as qualified dividends |
|  |  | **1040 Pg 1** | **Acme Partners - Dividends only** |
|  |  | Line 9a | TW transfers the ordinary dividends from the Dividend Stmt ($474) |
|  |  | Line 9b | TW transfers the qualified dividends from the Dividend Stmt ($101) |
|  |  | **NJ 1040 Pg 2** | **Acme Partners - Dividends only** |
|  |  | Line 16a | TW transfers the ordinary dividends from the Dividend Stmt ($474) |
| **7c** | **K-1** | **Sch E Pg 1** | **Acme Partners - Royalties only** |
|  |  |  | Link to Schedule E from 1040 Line 17 or use Add icon to add Sch E into forms tree |
|  |  | Line A | Check NO since the Hales do not need to file Form 1099 |
|  |  | Line 1A | Fill in Partnership’s Address, enter T in the TSJ column & enter 6 as Type for Royalties |
|  |  | Line 4  - Scratch Pad off Column A  Description  Line 1 | Enter the Royalties from K-1  Use a scratch pad to document the source of the royalties income  Enter SCH E LINE A ROYALTIES  Enter ROYALTIES FROM ACME PARTNERS K-1 = $976 |
|  |  | **1040 Pg 1** | **Acme Partners - Royalties only** |
|  |  | Line 17 | TW transfers the royalties income from Sch E ($976) |
|  |  | **NJ 1040 Pg 2** | **Acme Partners - Royalties only** |
|  |  | Line 22 | TW transfers the royalties income from Sch E ($976) |
| **7d** | **K-1** | **Sch D Pg 1** | **Acme Partners - Capital Gains only** |
|  |  | Scratch Pad off Line 12  Description  Line 1 | Enter net long-term capital gain from Sch K-1  Use a scratch pad to document the source of the capital gains income  Enter SCH D LINE 12 CAPITAL GAINS FROM K-1  Enter SCH K-1 ACME PARTNERS NET LONG-TERM CAPITAL GAIN = $218 |
|  |  | Line 15 | TW re-calculates the current net long-term capital loss by combining the long-term capital loss carryover from last year (entered in Step 2c) with the K-1 long-term capital gain (-$15,454 + 218 = -$15,236). |
|  |  | **Sch D Pg 2** | **Acme Partners - Capital Gains only** |
|  |  | Line 16 | Since there are no short-term transactions on Sch D, TW calculates a net capital loss of -$15,236 |
|  |  | **1040 Pg 1** | **Long-Term Capital Loss Carryover** |
|  |  | Line 13 | TW transfers the maximum amount of capital loss (-$3,000) that can be applied against the Hales’ other income. That amount stays the same as it was from Step 2c |
|  |  | Line 37 | Even though $218 was added to income from the K-1 capital gains, AGI did not change, since the maximum of -$3,000 had already been on Line 13 |
|  |  | **Sch D Wkt2** | **Capital Loss Carryover to Next Year** |
|  |  | Line 13 | TW re-calculates the amount on the worksheet for Capital Loss Carryovers from This Year to Next Year. It adds +$218 from the K-1 to the previous carryover of -$12,454 (from Step 2c). The carryover is now -$12,236 |
|  |  | **NJ Sch B** | **Net Gains from Disposition of Property** |
|  |  | Line 1 | TW transfers the K-1 net capital gain from Sch D ($218). NJ does not allow capital loss carryovers |
|  |  | **NJ 1040 Pg 2** | **Net Gains from Disposition of Property** |
|  |  | Line 18 | TW transfers the K-1 net capital gain from NJ Sch B ($218) |
|  |  | Line 28 | NJ Gross Income increases by the amount of the K-1 capital gains ($218) |
|  |  | **NJ 1040 Pg 3** | **NJ Taxable Income** |
|  |  | Line 39 | NJ taxable income increases by $222 ($218 increase in income + $4 less in medical deductions) |
| **8** | **1099-INT** | **Interest Stmt** | **Acme Financial - Interest only** |
|  |  |  | The first page of a brokerage statement usually provides the actual 1099-INT that is sent to the IRS. On later pages, the brokerage statement will show the details behind the totals on the 1099-INT |
|  | Line 1 | Line 2  - Payer Column  - Box 1 or 3 Amount Column | It is easier to use separate lines on the Interest Stmt for the different entries on the 1099-INT since NJ's tax treatment of the amounts may be different than the Federal's. Use the same payer name on each line  Use brokerage's name (Acme Financial) as the payer; do not have to use name of individual funds from the detail pages  Enter taxable interest ($125) |
|  | Line 3 | Line 3  - Payer Column  - Box 1 or 3 Amount Column  - State Adjust Column | Enter Acme Financial as the payer  Interest on US Savings Bond is taxable for the Federal, so enter taxable interest ($506)  Unlike the Federal, interest on US Savings Bonds is tax exempt for NJ. Therefore, enter a negative and $506 to take this interest amount out of NJ income |
|  | Line 4 | Line 4  - Payer Column  - Federal Withheld Column | Enter Acme Financial as the payer  Enter Federal income tax withheld ($51) |
|  | Line 8 | Line 5  - Payer Column  - NAEOB Column  - State Adjust Column | Enter Acme Financial as the payer  Interest on any municipal bonds is tax exempt for the Federal. Therefore, enter an E and $338  Interest on individually-owned NJ municipal bonds (not in a mutual fund) is tax exempt for NJ (the same as the Federal). So no need to enter a State Adjustment for the $149. However, interest on bonds from other states is taxable for NJ. Therefore, enter a + and $189 to add the interest on the NY municipal bonds back into NJ income |
|  |  | **1040 Pg 1** | **Acme Financial - Interest only** |
|  |  | Line 8a | TW adds the taxable interest from Acme Financial ($125 + 506 = $631) to the taxable interest already on Line 8a from the K-1 ($343). Line 8a should now be $974 |
|  |  | Line 8b | TW transfers the tax-exempt interest from Acme Financial ($338) |
|  |  | **1040 Pg 2** | **Acme Financial - Interest only** |
|  |  | Line 64 | TW adds the Federal tax withheld from Acme Financial ($51). Total Federal tax withheld should now be $3,495 |
|  |  | **NJ 1040 Pg 2** | **Acme Financial - Interest only** |
|  |  | Line 15a | TW adds the NJ taxable interest from Acme Financial ($125 + 189 = 314) to the taxable interest from the K-1 ($343). Line 15a should now equal $657 |
|  |  | Line 15b | TW will transfer the NJ tax-exempt interest from Acme Financial ($506 + 149 = $655) |
| **9a** | **1099-DIV** | **Dividend Stmt** | **Acme Financial - Dividends only** |
|  |  |  | The first page of a brokerage statement usually provides the actual 1099-DIV that is sent to the IRS On later pages, the brokerage statement will show the details behind the totals on the 1099-DIV |
|  | Line 1a  Line 1b  Line 2a  Line 3  Line 6  Line 10  Line 11 | Line 1  - Payer Column  - Ordinary Dividends Column  - Qualified Dividends Column  - Capital Gain Column  Foreign tax paid handled in next sub-step  - Exempt Int. Div. Column  - State Adjust Column    - AMT PAB Column | Use brokerage's name (Acme Financial) as the payer; do not have to use name of individual funds from the detail pages  Enter ordinary dividends ($232)  Enter qualified dividends ($125)  Enter capital gains distributions ($69)  Nondividend Distributions are return of capital. These should not be entered in TW at all since they are just returning investor's principal. They should be subtracted from cost basis when investment is sold  Enter exempt-interest dividends received from a mutual fund ($400)  Look at the Exempt-Interest Dividends detail to determine if the federal exempt-interest dividends are 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  - The Select US Tax-Exempt Fund is not a "NJ Qualified Investment Fund" since it is not NJ specific. Therefore, the exempt interest attributable to NJ is taxable (10%), as well as the part attributable to all other states (60%), together totaling 70%. The parts that are tax exempt on the NJ return are the parts attributable to the US Federal obligations plus the District of Columbia, Puerto Rico and US possessions obligations (total of 30%).  Since the taxable portion is 70% of $200 = $140, add a + and 140 to the State Adjust Column so that $140 of the exempt-interest dividends is added to NJ dividend income on NJ 1040 Line 16  The 30% of $200 = $60 for the tax-exempt US obligations part will be transferred to NJ 1040 Line 15b (tax-exempt interest, not dividends)  - The Select NJ Qualified Fund is considered a "NJ Qualified Investment Fund," so the exempt interest attributable to NJ obligations (70%) is tax exempt, along with the part for US obligations including US Federal, DC, PR, and US possessions (23%). Only the part attributable to all other states (7%) is taxable  Since 7% of $200 = $14, add a + and 14 to the State Adjust Column so that $14 of the exempt-interest dividends is added to NJ dividend income on NJ 1040 Line 16  The remaining 93% of $200 = $186 will be transferred to NJ 1040 Line 15b  Enter the AMT private activity bond interest dividends ($22) |
|  |  | **Sch B** | **Acme Financial - Dividends only** |
|  |  | Line 5a | TW transfers the ordinary from the Dividend Stmt screen ($232) |
|  |  | **Sch D** | **Acme Financial - Dividends only** |
|  |  | Line 13 | TW transfers the capital gains distributions from the Dividend Stmt screen ($69) |
|  |  | **Sch D Wkt2** | **Capital Loss Carryover to Next Year** |
|  |  | Line 13 | TW re-calculates the amount on the worksheet for Capital Loss Carryovers from This Year to Next Year. It adds the capital gains distribution ($69) to the previous carryover loss of -$12,236 (from Step 7d). The carryover loss for next year is now -$12,167 |
|  |  | **1040 Pg 1** | **Acme Financial - Dividends only** |
|  |  | Line 8b | TW transfers the exempt-interest dividends from the Dividends Stmt screen ($400). Total tax-exempt interest is now $738 |
|  |  | Line 9a | TW transfers the ordinary dividends from the Dividends Stmt screen ($232) |
|  |  | Line 9b | TW transfers the qualified dividends from the Dividends Stmt screen ($125) |
|  |  | **NJ Sch B** | **Acme Financial - Dividends only** |
|  |  | Line 2 | TW transfers the capital gains distribution from the Dividend Stmt screen ($69) |
|  |  | **NJ 1040 Pg 2** | **Acme Financial - Dividends only** |
|  |  | Line 15b | TW transfers the portion of the exempt-interest dividends from the Dividend Stmt screen that are also tax-exempt for NJ ($246). Total NJ tax-exempt interest income is now $901 ($246 + 506 + 149) |
|  |  | Line 16 | TW transfers the NJ taxable dividends from the Dividends Stmt screen. This includes the ordinary dividends plus the portion of the exempt-interest dividends that are taxable in NJ (shown as positive amounts in the State Adjust Column) ($232 + 140 + 14 = $386). Total NJ dividends is now $860 ($386 + 474 from K-1) |
|  |  | Line 18 | TW adds the capital gains distribution from NJ Sch B ($69) to the K-1 capital gains from Step 7d ($218). Total NJ net gains from disposition of property is now $287 |
| **9b** | **1099-DIV** | **1116 Pg 1** | **Acme Financial - Foreign Tax Paid** |
|  |  | Blank line in middle of paragraph near top | Add Form 1116 to forms tree by clicking on Forms List icon at top of screen, typing Foreign Tax, & clicking Add. Enter $44 in box in middle of screen. Don’t need to “get the red out” of rest of screen |
| **10** | **1099-B** | **Cap Gn Wkt** | **Acme Financial - 1099-B only - Proceeds from Broker and Barter Exchange Transactions** |
|  |  |  | Enter all stock sales on the Cap Gn Wkt, not on Sch D or Form 8949 directly |
|  |  | Line 1 | Sale of Acme Corp shares |
|  |  | - Column a | Enter 50 ZACO as description of property |
|  |  | - 1099 Column | Enter E since cost basis was not reported to IRS |
|  |  | - Column b | Enter 09/01/1992 date acquired |
|  |  | - Column c | Enter 05/10/2014 as date sold |
|  |  | - Column d | Enter $3,462 as sales price |
|  |  | - Column e | Enter $3,181 as cost basis |
|  |  | - Columns f & g | No adjustment to gain is needed |
|  |  | - Column h | TW calculates a long-term gain of $281 |
|  |  | Line 2 | Sale of Acme Corp shares |
|  |  | - Column a | Enter 100 ZACO as description of property |
|  |  | - 1099 Column | Enter E since cost basis was not reported to IRS |
|  |  | - Column b | Enter 09/01/1992 as date acquired |
|  |  | - Column c | Enter 10/20/2014 as date sold |
|  |  | - Column d | Enter $7,226 as sales price |
|  |  | - Column e | Enter $6,362 as cost basis |
|  |  | - Columns f & g | No adjustment to gain is needed |
|  |  | - Column h | TW calculates a long-term gain of $864 |
|  |  | Line 3 | Sale of Acme Inc shares |
|  |  | - Column a | Enter 65 ZAI as description of property |
|  |  | - 1099 Column | Enter E since cost basis was not reported to IRS |
|  |  | - Column b | Choose IN/HE/RIT from drop-down menu as date acquired |
|  |  | - Column c | Enter10/20/2014 as date sold |
|  |  | - Column d | Enter $5,663 as sales price |
|  |  | - Column e | Enter $7,222 as cost basis (Fair Market Value on the date of death) |
|  |  | - Columns f & g | No adjustment to loss is needed |
|  |  | - Column h | TW calculates a long-term loss of -$1,559 |
|  |  | **8949 Pg 2E** | **Long-Term Capital Gains with Cost Not Reported to IRS** |
|  |  |  | TW transfers all the long-term capital gains transactions with 1099 code E from Capital Gains Wkt to 8949 Code E Wkt |
|  |  | **Sch D Pg 1** | **All Capital Gains Transactions** |
|  |  | Line 9 | TW transfers totals from 8949 Pg 2E (Sales Price $16,351, Cost $16,765, Loss -$414) |
|  |  | Line 15 | TW adds together the long-term loss under Line 10 (-$414) + the long-term gain from the K-1 on Line 12 ($218) + the capital gains distribution on Line 13 ($69) + long-term carryover loss from last year (-$15,454) to determine a net long-term loss of -$15,581 |
|  |  | **1040 Pg 1** | **Long-Term Capital Loss** |
|  |  | Line 13 | TW transfers the maximum amount of capital loss (-$3,000) that can be applied against the Hales’ other income. That amount stays the same as it was from Step 2c |
|  |  | **Sch D Wkt2** | **Capital Loss Carryover to Next Year** |
|  |  | Line 13 | TW re-calculates the amount on the worksheet for Capital Loss Carryovers from This Year to Next Year. It adds the net long-term loss (-$414) from the sale of stock to the previous carryover loss of -$12,167 (from Step 9a). The carryover loss for next year is now -$12,581 |
|  |  | **NJ Sch B** | **Net Gains from Disposition of Property** |
|  |  | Line 1 | TW adds the net loss from the sale of stock (-$414) to the K-1 capital gains (from Step 7d) ($218). . NJ does not allow capital loss carryovers. The total on Line 1 is now -$196 |
|  |  | Line 2 | The capital gains distribution from Step 9a is already on Line 2 ($69) |
|  |  | Line 4 | Since NJ does not allow capital losses, TW populates 0 on the net gains line |
|  |  | **NJ 1040 Pg 2** | **Net Gains from Disposition of Property** |
|  |  | Line 18 | TW transfers the 0 net gains from NJ Sch B |
| **11** | **1099-B** | **Cap Gn Wkt** | **Acme Financial - 1099-B only - Proceeds from Broker and Barter Exchange Transactions** |
|  |  | Line 4 | You are allowed to consolidate a number of 1099-B transactions, instead of entering each one separately on the Cap Gn Wkt, 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 into one line on the Cap Gn Wkt. You would need to enter a separate line for the consolidation of each other 1099 Code grouping (A, B, D). 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. If you consolidate codes B or E, where the cost is not reported to the IRS, you would have to send in supporting documentation |
|  |  | - Column a | Enter Acme Financial (name of broker) as description of property |
|  |  | - 1099 Column | Enter D (all consolidated transactions are long term and cost was reported to IRS) |
|  |  | - Column b | Enter VA/RI/OUS as date acquired. TW will assume that the transactions are long term |
|  |  | - Column c | Enter 12/31/2014 (or date of latest transaction - 12/15/2014) as the date sold |
|  |  | - Column d | Enter $18,360 as total sales price of consolidated transactions |
|  |  | - Column e | Enter $8,000 as total cost basis of consolidated transactions |
|  |  | - Column f | Enter M as code to show consolidated transaction |
|  |  |  | The ZAI stock sold on 9/15/2014 shows a nondeductible loss of $20.88 from a wash sale. A wash sale is the sale of a security at a loss and the repurchase of the same or substantially identical security within 30 days before or after the sale. In this situation, the IRS does not allow the taxpayer to claim the loss. Instead, the loss will be subtracted from the basis of the new security when it is eventually sold. You must enter a W adjustment code for a wash sale  Pub 4012 Pgs D17-18 show all the adjustment codes that are in scope  NOTE:If there is more than one adjustment code in column f, they should be entered in alphabetical order, with no spaces or commas |
|  |  | - Column g | Enter positive $21 to zero out the loss from the wash sale  Pub 4012 Pgs D17-18 tell you whether to enter a positive or negative number for each adjustment code |
|  |  | - Column h | TW calculates a long-term gain of $10,381. Note that this is $21 more than the amount shown on the 1099-B because the wash sale loss was disallowed |
|  |  | **8949 Pg 2D** | **Long-Term Capital Gains with Cost Reported to IRS** |
|  |  |  | TW transfers this consolidated transaction with 1099 code D from Capital Gains Wkt |
|  |  | **Sch D Pg 1** | **All Capital Gains Transactions** |
|  |  | Line 15 | Bottom line for Sch D is a net long-term loss of -$5,200 ($10,381 + -414 + 218 + 69 + -15,454) |
|  |  | **1040 Pg 1** | **Capital Gain/Loss** |
|  |  | Line 13 | TW transfers the maximum amount of capital loss (-$3,000) that can be applied against the Hales’ other income. That amount stays the same as it was from Step 2c |
|  |  | **Sch D Wkt2** | **Capital Loss Carryover to Next Year** |
|  |  | Line 13 | TW re-calculates the amount on the worksheet for Capital Loss Carryovers from This Year to Next Year. It adds the net long-term gain ($10,381) from the sale of stock in this step to the previous carryover loss of -$12,581 (from Step 10). The carryover loss for next year is now -$2,200 |
|  |  | **NJ Sch B** | **Net Gains from Disposition of Property** |
|  |  | Line 1 | TW adds the net loss from the sale of stock ($10,381) to the amount already on Line 1 (-$196). Total on Line 1 is now $10,185 |
|  |  | Line 2 | The capital gains distribution from Step 9a is already on Line 2 ($69) |
|  |  | Line 4 | NJ net gains is now $10,254 |
|  |  | **NJ 1040 Pg 2** | **Net Gains from Disposition of Property** |
|  |  | Line 18 | TW transfers the net gains from NJ Sch B ($10,254) |
| **12** | **Notes** | **1040 ACA Wkt** | **Health Insurance** |
|  |  | Line for taxpayer, spouse, and each dependent | Since Steve, Paula, and Wanda all had health insurance for the full year, check the Full box on each person's line. No one had coverage through the Marketplace, so no further ACA action is necessary |
|  |  | **1040 Pg 2** | **Health Insurance** |
|  |  | Line 61 | TW checks the box for full-year coverage |
| **13** | **Notes** | **Diagnostics** |  |
|  |  |  | Run Diagnostics and correct errors as needed before entering NJ unique items |
| **14** | **Notes** | **F/S Tax Paid, State Section** | **NJ Estimated Tax Payments** |
|  |  | "Last state estimate payment for 2013 paid in 2014" Line | Refer to NJ Special Handling document Page 11 on TaxPrep4Free.org  Enter the final 2013 estimated tax payment of $50 paid on 1/3/2014 |
|  |  | 04/15/2014 Amount 1 Column  06/15/2014 Amount 2 Column  09/15/2014 Amount 3 Column  01/15/2015 Amount 4 Column | Enter $60  Enter $60  Enter $60  Enter the $70 estimated tax payment for 2014 under the 1/15/2015 column. Since the payment was actually made in 2014, check the \* box. Instructions at the top of State section tell you to check \* box if payment 4 was paid before 1/1/2015 |
|  |  | **Sch A** | NJ Estimated Tax Payments |
|  |  | Line 5a | TW will transfer the $50 final payment for 2013 estimated taxes + all four 2014 estimated tax payments ($250) to Federal Sch A for state taxes paid in 2014  TW will add the $300 to the $245 already on Line 5a (from Step 2b). Line 5a should now be $545  Federal refund does not change because taxpayer is still claiming standard deduction |
|  |  | **NJ 1040 Pg 3** |  |
|  |  | Line 50 | TW will transfer all four estimated tax payments ($250) to NJ 1040 because they were all applied to 2014 taxes  It will not transfer the $50 payment on 1/3/2014 because it was for 2013 taxes, not for 2014 taxes |
| **15** | **Notes** | **NJ 1040 Pg 3** | **Use Tax** |
|  |  | Scratch Pad off Line 45  Description  Line 1 | Refer to the Estimated Use Tax Chart on Page 36 of NJ 1040 booklet or by using the link in the left column of the TaxPrep4Free.org Preparer's page  Based on the Hales’ NJ Gross Income on NJ 1040 Line 28 ($22,938), the chart shows they would owe $44 in use tax  Link to a scratch pad off NJ 1040 Line 45  Enter NJ 1040 LINE 45 USE TAX  Enter USE TAX ON $22,938 BASED ON ESTIMATED USE TAX CHART = $44  NOTE: Even though you entered info on scratch pad, you must still "get the red out" on Line 45 (Ctrl-Space or F3 or Toggle Estimated) |
| **16** | **Notes** | **NJ 1040 Pg 3, Worksheet F** | **Rent Paid** |
|  |  | Scratch Pad off Line 1  Description  Line 1  Line 2 | Since the Hales meet the eligibility requirements to claim the NJ property tax deduction/credit, complete Worksheet F. On Line 1, link to a scratch pad to document the amount of rent the Hales paid for the year  Enter WORKSHEET F LINE 1 RENT PAID  Enter RENT IN DOVER FROM JANUARY - JUNE $1,000 PER MONTH = $6,000  Enter RENT IN PLUCKEMIN FROM JULY - DECEMBER $1,100 PER MONTH = $6,600  TW will calculate the 18% of rent that can be claimed as property tax ($6,000 + 6,600 = $12,600 x .18 = $2,268)  NOTE: The Hales cannot claim double rent payments for June & July because you can only claim for a residence "you owned & occupied as your principal residence"  You must "get the red out" of the property tax line (Ctrl-Space or F3 or Toggle Estimated) |
|  |  | Under Line 7 | TW will complete the rest of Worksheet F and determine that it is better for the Hales to claim the $50 Property Tax Credit on Line 49 than the Property Tax Deduction on Line 38 |
|  |  | Line 37a | TW transfers the 18% of the rent that it calculated on Worksheet F Line 1 ($2,268) |
|  |  | Line 37b  Line 37c | Since the Hales rent, you do not need to enter block and lot numbers or municipality code. Just "get the red out" (Ctrl-Space or F3 or Toggle Estimated) |
|  |  | Line 49 | TW transfers the $50 Property Tax Credit from Worksheet F |
| **17** |  | **Diagnostics** |  |
|  |  |  | Run Diagnostics again. All errors should be corrected before you begin to handle refund/balance due |
| **18** | **Intake Sheet** | **1040 Pg 2** | **Payment of Federal Refund** |
|  |  |  | Steve indicated on the Intake Sheet that he does not want direct deposit for Federal, so he will receive a check from the IRS. That is the TW default for a Federal refund. Just "get the red out" from the Direct Deposit line on the Main Info screen |
| **19** | **Notes** | **NJ DD Wkt** | **Payment of NJ Refund** |
|  |  | Direct Deposit Section | Since the Notes indicate that Steve wants to do the same for his NJ refund as for the Federal, click on the line that says “Check here to have a refund check mailed to you” |
| **20** | **Notes** | **NJ ES Wkt** | **TY2015 Estimated Tax Payments** |
|  |  |  | If estimated tax is $400 or less, no estimated tax payments are required. However, the Hales have requested that you prepare 2015 NJ estimated payment vouchers for $200. You will have to add the NJ ES Wkt by clicking on the Add icon at the top of the forms tree and typing in NJ ES Wkt |
|  |  | Line 21 | On the line that says "Estimate desired, if different from required," enter $200. TW will automatically transfer 1/4 of that amount ($50) to each estimated tax payment due date at the bottom of the screen. Four payment vouchers will be printed as part of the return. Explain to the client that each voucher should be mailed in with a payment by the appropriate due date |
| **21** |  | **Diagnostics** |  |
|  |  |  | Run Diagnostics and correct errors as needed |
|  |  | Create e-file |  |
|  |  |  | Another type of error check is run when creating an e-file. You could get different error messages than when running Diagnostics. After all errors are corrected, you should get message "E-Files created successfully" |
|  |  | **Prep Use** | **Quality Review** |
|  |  | Line 14 | Ask Mentor to perform Quality Review. Mentor enters initials when finished |