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| 1 | Have any out- of-scope items? | When not to prepare a return | Don’t start returns unnecessarily. Evaluate all TP documents against “Who Needs To File” and “Scope” documents before starting a return. |  Common out of scope items: -investment interest -rental income  -missing 1099B basis -casualty loss -state income outside NJ, NY, PA  | Pub 4012 p. A-1 & AARP Scope file. |
| 2 | Have a W2 with a Cafe 125 entry, or is W2 box 1 much lower than box 16? | Cafe 125 Medical Deduction | Cafe 125 plan medical costs are subtracted from federal income in W2 box 1 but not from NJ income in W2 box 16. Use 12/31 paystub or ask TP to confirm eligible medical (but not child care, legal, etc.) costs. | Add Cafe 125 (medical-only) costs to NJ deductions besides any Sch A items that transfer automatically using a scratch pad on NJ-1040 page 1, line 30, properly accounting for NJ 2% threshold. | NJ Special Handling p. 4 |
| 3 | Have low earned income? | Earned Income Credit | Some TPs are not getting EIC, one of the largest tax credits available (up to $6,143 in TY2014). | Check EIC column box on Main Info Wkt for all dependents so TWO will force a check of EIC eligibility. | Pub 4012 p. I-1,Pub 4491 p. 309 |
| 4 | Have interest income? | Taxable and Non-Taxable Interest | Non-taxable interest differs on federal and NJ returns and often generates questions or QR problems. | Consult Pub. 4012 chart for adjustment codes for proper treatment of US Govt and municipal bonds. | Pub 4012 p. D-9 |
| 5 | Age 71-72? | Required Minimum Distri-butions (RMDs) | Potential 50% penalty of withdrawal amount if TP overlooks RMD deadlines. Confusing and easy for TP to forget, even with a reminder from their financial institution.  | Ask TP: -Should they have completed an IRA or 401K RMD this year?-Do they have the 1099-R for it? Ask your LC about Form 5329 waiver if the TP is subject to their first penalty. | Pub 4491 p. 140 |
| 6 | Have a 1099-R with an empty Box 2 Taxable Amount? | 1099-R Simplified Method | If TP contributed to their pension, only a portion of their 1099-R Box 1 Gross Amount may be taxable. If missed, the TP may pay too much tax. | If Box 2 Taxable Amount box is empty, “taxable amount not determined” box is checked and box 9B has employee contributions, then complete Simplified Method at bottom of 1099-R entry form. | Pub 4012 p. D-23,Pub 4491 p. 137 |
| 7 | Under 59½ and took an early distri- bution from their IRA? | Form 5329 Additional Taxes on Qualified Plans | TP pays 10% penalty unless they have an allowed exception such as: disability, used for medical expenses over 7.5-10% AGI, higher education expense, first-time home purchase. | Do they qualify for an allowed exception to the 10% penalty? If so, check 1099-R box to trigger a Form 5329 and enter proper exception code. | Pub 4012 p. H-1, Pub 4491 p. 298 |
| 8 | Have a taxable prior year state refund? | State Refund WorksheetNote: NJ income tax refunds are **not** taxable on NJ returns. | If state income tax provided a federal deduction benefit *last* year, any state income tax refund must reduce the federal benefit *this* year. If the TP did not bring their prior year return, retrieve it in TWO or look up the refund amount received, if any, at: <https://www1.state.nj.us/TYTR_Saver/jsp/TGI_1099/NJ1099Login.jsp> | Did the TP itemize last year?  -NO: Ignore refund, it is not taxable. -YES (and deducted Sales Tax Sch A line 5b last year): Ignore refund, it is not taxable. -Yes (and deducted Income Tax Sch A line 5a last year): You *must* complete State Refund Wkt linking from 1040 line 10 to determine what portion of last year’s refund is taxable this year. | NJ Special Handling p. 2, Pub. 4012 p. D-5, D-11 |
| 9 | Have capital gains or losses? | Capital Gains: Form 8949 and Schedule D | 1099-B forms or TP must provide original cost basis of investment or the return is out-of-scope. As last resort, check if using basis=0 does not change refund or tax owed amt.  | Transactions and basis source codes MUST be entered on Capital Gain Wkt:A=1099B with basis reported to IRSB=1099B without basis reported to IRSC=Not reported on a 1099B | Pub 4012 p. D-15, Pub 4491 p. 111 |
| 10 | Have more than 10 capital gains or losses? | Consolidat- ing Capital Gains | Avoid entering many (>10) transactions or turning away the TP. Just enter the 1099B *subtotals* into the Capital Gain Worksheet. | Confirm with your LC and then follow the Consolidating Capital Gains procedure. 1099B copies must be mailed to the IRS for “B” or “E” entries. | Taxprep4free.org Preparer page |
| 11 | Require ACA Form 8962? | Itemized medical deductions | If the TP has paid ACA premiums beyond any ACA premium tax credit they are an eligible itemized deduction. | After completing Form 8962, add its net premiums due or credited to those paid (if any) on Form 1095A and enter total as insurance premiums on Sch A. |  |
| 12 | Claiming tuition or other educa- tion costs? | Education Credits | There are 3 types of credits: -American Opportunity Credit -Lifetime Learning Credit -Tuition & Fees Deduction | Review eligibility for AOC or LLC then complete Form 8863 via 1040 line 49. If the TP has any tax liability, AOC is usually the best option. Note Form 8863 Q23 must=NO to qualify for AOC. | Pub 4012 p. J-4,Pub 4491 p. 263 |
| 13 | Have disability income? | Disability as Earned Income | Indicating a disability payment is earned income requires a 1099-R box to be checked. It can mean the difference between getting valuable EIC refunds or not. | If 1099-R box 7 = “3” (disability), TP is under 65 AND started receiving a pension prior to employer’s normal retirement age, it is earned income. Check the “Check if disability” box and complete EIC Wkt. | Pub 4012 p. D-19 right side. |
| 14 | Have interest penalty for under- withholding? | Removing interest penalties on Form 2220 | The IRS assesses interest penalties for under-withholding estimated taxes, but Tax-Aide procedure requires penalties to be removed and calculated later by the IRS. | Go to Form 2210 page 1 in forms tree, or link from Form 1040 line 79. Check box F and enter 1 on line 8 which will remove penalty amount. Inform TP they should expect notice from IRS. | Pub 4491 p. 326 |
| 15 | Itemize and had NJ balance due last year? | Federal/State Tax Worksheet | If a TP owed additional tax last year it is deductible on this year’s tax return, but the amount will not carry over if the return was done at a different location last year. | Check that any prior year balance due is in the F/S Tax Wkt, or add it if necessary, so the income tax deduction carries over to Sch A. |  |
| NJ 1 | Have an under age 22 college student? | NJ College Student Exemption | NJ provides a $1,000 additional exemption for any college student under 22, but this is easy to miss. | A manual entry must be made on NJ-1040 PG2 line 11 for the number of dependents under 22 attending college. |  |
| NJ 2 | Have a PTR or Homestead Benefit credit? | NJ PTR, NJ Homestead Benefit and Federal 1040 Schedule A | If property tax had a federal deduction benefit *last* year, any credit must reduce the federal benefit *this* year. If the TP does not know HB amount, look it up at: <https://www1.state.nj.us/TYTR_Saver/jsp/common/HRInquiry.jsp> | See flowchart “How To Handle NJ Property Tax Recoveries” on the Middlesex NJ12 site, Flowcharts & Codes section, to step through the procedure.  | NJ Special Handling p. 7 |
| NJ 3 | Eligible for NJ $50 Property Tax Credit (PTC)? | NJ Property Tax Credit | PTC completion rules are confusing, causing the $50 credit to sometimes be incorrectly or inconsistently applied on the NJ-1040. As of TY2014, we complete Worksheet F for all TPs renting or owning their home \*except for subsidized housing tenants. Let TWO figure out if the TP is eligible to receive the credit. | Complete Wkt F for all TP’s who own a home or rent\*. Actual property tax paid from 1040 Sch A line 6 box 3 will flow to 1040-NJ Wkt F. For mobile homeowners, enter their “land rent” as rent, not property tax. For PTR seniors, enter their PTR base amount in Wkt F and adjust their line 37a to show actual green card property tax amount paid. | NJ Special Handling p. 10 |
| NJ 4 | Receive an NJ pension for the first time this year? | NJ 3 Year Pension Rule | If a TP paid into their pension plan and could recover those contri- butions within their first 3 years’ payments, then those “recovery” payments are not taxable. TPs usually receive a letter explaining they are eligible for this tax benefit. | Ask the TP if they are receiving their pension for the first time this year and if it was a contributory plan. This usually applies to NJ state and education workers who participate in a Trenton-based pension plan. | NJ Special Handling p. 11 |
| NJ 5 | Only get a NJ refund? | NJ Direct Deposit Worksheet | There is confusion on where to enter checking account numbers when the TP is only getting a NJ refund Most commonly, the TP is getting US & NJ refund to same checking acct no. (CAN). Enter CAN on Main Info Wkt and 1040 p. 2. | If TP is getting both refunds but to 2 different CANs, also enter NJ different one in NJ Direct Deposit Wkt.If TP is only getting NJ refund: in NJ Direct Deposit Wkt, check “state refund deposited into a different account” and enter CAN in two locations. |  |