| **Step** | **Form / Note** | **TW Screen** | **Learning Points** |
| --- | --- | --- | --- |
| **0** | **Intake Sheet** |  |  |
|  | Notes |  | Fill in Page 1, shaded area, based on info in Notes  - Question 1 – YES for John; NO for George  - Question 2 – NO for both  - Question 3 – YES for both  - Question 4 – YES for both  - Question 5 – YES for both  Based on these answers and Pub 4012 Page C-5, George can be claimed as a qualifying child for dependency. John is a nondependent due to the divorce decree, but may be eligible for some credits |
|  | Notes and Source Documents |  | Update answers to questions on page 2 of Intake Sheet:  Part III, Question 2 - Change answer from Unsure to Yes since there are tips shown on the Acme Diner W-2  Part III, Question 4 - Change answer from Yes to No since there are no documents or notes showing interest or dividends  Part III, Question 5 - Change answer from No to Yes since notes in Step 2 says Laura received a NJ income tax refund from the prior year  Part III, Question 10 - Change answer from Unsure to Yes since Laura has a 1099-R showing a disability pension (Step 6)  Part III, Question 11 - Change answer from No to Yes since Laura has a 1099-R for an IRA withdrawal (Step 5a)  Part III, Question 12 - Change answer from Yes to No since Laura did not collect unemployment  Part IV, Question 7 - Change answer from Unsure to No since Laura did not pay property taxes or personal property taxes (N/A in NJ)  Part IV, Question 11 - Change answer from Unsure to Yes, since Laura had expenses associated with her editing work for Acme Services |
| **1a** | **Intake Sheet** | **Main Info** |  |
|  | Part I | Taxpayer Info Section | Check box to show that Laura is totally and permanently disabled. This does not provide any tax benefit on the Federal return, but Laura is entitled to an extra exemption on the NJ return |
|  | Part II | Filing Status | Use Charts on pages B-1 to B-3 in 4012 to determine the correct filing status. Laura qualifies to file as Head of Household. Although the qualifying person fields turn red, it is not necessary to enter anything in these fields at this point. The fields will no longer be red after filling in the Dependents section |
|  | Part II | Dependents | List dependents, starting with youngest. Last names are not needed since both are the same as the taxpayer's  John – Son, 12 Mo in Hm, Code 0 “Non-Dependents,” DC and EIC checked, CTC not checked.  John is a non-dependent because Laura's divorce decree states that her ex-husband will claim John as his dependent  John must be listed on Laura's return even though her ex-husband is claiming him as a dependent so that he can be considered for the Child and Dependent Care (DC) credit and the Earned Income credit (EIC)  TW will not check box for CTC because child must be a dependent to qualify for CTC  John's name will not show in the Dependents section on the 1040 itself  George – Son, Code 1 “Child Who Lives with You,” DC, EIC, CTC all checked |
|  |  |  | Head of Household boxes should no longer be red |
|  |  |  | Once DC box is checked, TW populates 2441 for Credit for Child and Dependent Care Expenses in the forms tree |
| **1b** | **Intake Sheet** | **NJ 1040 Pg1** |  |
|  | Part I  Address | Municipality Code | Enter Municipality Code for Pluckemin (1801). Can obtain from NJ 1040 instruction booklet or through Municipality Code Look-up tool in left column on TaxPrep4Free.org Preparer page |
| **1c** | **Intake Sheet** | **NJ 1040 Pg 2** |  |
|  | Notes | Gubernatorial Election Campaign Fund | Check Yes since Laura wishes to handle the Gubernatorial Elections Fund the same way as the Presidential Election Campaign Fund |
|  |  | Line 13 | Both children have health insurance so no need to do anything here |
|  | **Notes** | **NJ Dep Wkt** | **Dependent with No Health Insurance** |
|  |  | George's Line | Only George is listed.  John is not listed because he is a non-dependent (Code 0). He may need to be added later if he is involved in qualifying Laura for EIC.  Do not check box that says "Check if dep does not have health insurance" since George is covered |
| **1d** | **Intake Sheet** | **Prep Use** |  |
|  | Part VII | Line 11 | Answer NONE to language question |
|  |  | Line 12 | Answer YES to disabled question |
|  |  | 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 YES since Laura itemized last year and claimed the State Income Tax deduction on Sch A Line 5a . TW now puts Line 10 in red |
|  |  | **St Tax Refund** | **Prior Year Refund** |
|  |  |  | Link from 1040 line 10 to St Tax Refund worksheet or go directly by clicking in the forms tree  Enter info underlined in red to determine the "tax benefit" that Lynch received last year by claiming a State Income Tax deduction  If TW has carry-forward data from last year, some of the fields on this worksheet may be pre-populated |
|  |  | Line 1 | Enter last year's NJ income tax refund ($502) |
|  |  | Line 2 | Enter last year's State Income Tax deduction from Line 5a ($890)  Enter last year's State Sales Tax deduction from Line 5b ($655).  If there is no carry-forward data in TW, you must gather info from last year's printed return. Printed return only shows Line 5a or 5b, not both. In this case, Lynch claimed the Income Tax deduction, so Line 5a would have been shown. The Notes tell you how much was on Line 5b for Sales Tax. If Sales Tax was not given in the Notes, you would have to link to the prior year Sch A Sales Tax Table from left column of TaxPrep4Free.org Preparer page to get the Sales Tax amount |
|  |  | Line 3 | The income tax refund is only taxable to the extent that the Income Tax deduction exceeds the Sales Tax deduction ($890 - 655 = $235), so only $235 of the $502 refund is taxable at this point |
|  |  | Lines 6 - 10 | Lines 6 - 10 calculate how much "tax benefit" Lynch received by itemizing rather than claiming the standard deduction |
|  |  | Line 6 | Enter last year's Itemized Deductions ($9,145) |
|  |  | Line 7 | Enter 4 for last year's filing status -- Head of Household |
|  |  | Line 8 | Leave as 0 since no boxes were checked on Line 39a last year |
|  |  | Line 9 | TW calculates the standard deduction for last year based on filing status and boxes checked in Line 39a |
|  |  | Line10 | The income tax refund is only taxable to the extent that itemized deductions exceed standard deduction. TW calculates that last year's itemized deductions only exceeded the standard deduction by $195. Therefore, only $195 of $502 refund is now taxable at this point |
|  |  | Line 12 | Enter last year's taxable income. Taxable income shown on Line 43 will never be less than 0. However, the taxpayer may actually have had deductions and exemptions that were greater than income. The "tax benefit rule" says that the excess deductions/exemptions can also be subtracted to determine the taxability of the refund  Therefore, calculate the negative taxable income as follows: AGI minus Itemized Deductions ($7,680 on 1040 Line 41) minus Exemptions ($7,800 on 1040 Line 42) = $-120 |
|  |  | Scratch pad off Line 12  Description  Line 1  Line 2 | Document the negative taxable income calculations on a scratch pad.  Enter STATE TAX REFUND LINE 12 TAXABLE INCOME  Enter PRIOR YEAR AGI MINUS ITEMIZED DEDUCTIONS (LINE 41) = $7,680  Enter MINUS PRIOR YEAR EXEMPTIONS (LINE 42) = $-7,800 |
|  |  | Line 13 | TW will calculate how much of last year's income tax refund is taxable this year ($75), based on the "tax benefit" rule |
|  |  | Line 14/Line 15 | If the client also had any other recovery from last year (such as a PTR), you would enter that recovery amount on Line 4. Then TW would allocate the taxable amount of the State Tax Refund between the income tax refund (Line 14) and the other recovery (Line 15) - N/A for Lynch. Since there is no PTR recovery, just "get the red out" of Line 4 |
|  |  | **1040 Pg 1** | **Prior Year Refund** |
|  |  | Line 10 | TW transfers the taxable amount of last year's income tax refund from St Tax Refund ($75) |
|  |  | **NJ 1040 Pg 2** | **Prior Year Refund** |
|  |  |  | A prior year NJ refund is never taxable on the current year NJ return |
| **3** | **W-2** | **W2** | **Acme Industries** |
|  |  | Taxpayer Box | Check that this W-2 is for the taxpayer |
|  |  | Box for "Please verify Federal withholding...." | This box may be underlined in red after W-2 amounts have been entered. Check that the amounts entered in Boxes 1-6 are correct. Once verified, check box |
|  |  | Employer's name & address fields | Enter Employer ID # (EIN). TW will populate name & address if in database. Always check to make sure it matches printed W-2; address can frequently change |
|  | Box 1 | Box 1 | Enter Federal wages ($14,598). TW will automatically calculate the amounts in Boxes 3-6 |
|  | Box 2 | Box 2 | Enter Federal income tax withheld ($1,002) |
|  | Box 12a | Box 12 | Enter code DD for the cost of employer-sponsored health coverage. This is the total cost, including the amounts paid by the employer and the employee. Therefore, you cannot assume this whole amount can be claimed as a medical expense |
|  | Box 14 | Box 14 | Use exact TW titles for these NJ taxes, regardless of how they are titled on W-2: NJSUI for UI/WF/SWF; NJSDI for Disab; NJFLI for FLI. This ensures that these NJ taxes will flow through to Sch A Line 5a State and Local Taxes correctly  Work Force Development/Supplemental Work Force Development (WF/SWF) is a type of unemployment tax. It should be included on the NJSUI line |
|  | Box 16 | Box 16 | TW will automatically populate state wages with the amount from Box 1. Verify that Federal and state wages are the same |
|  | Box 17 | Box 17 | Enter state income tax ($575) |
|  |  | **1040 Pg 1** | **Acme Industries** |
|  |  | Line 7 | TW transfers the Box 1 wages amount from the W2 screen ($14,598) |
|  |  | **1040 Pg 2** | **Acme Industries** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the W2 screen ($1,002) |
|  |  | **Sch A** | **Acme Industries** |
|  |  | Line 5a | TW transfers the NJ tax withheld, as well as the NJSDI, NJSUI (including WF/SWF), and NJFLI amounts from the W2 screen ($575 + 56 + 6 + 55 + 15 = $707) |
|  |  | **NJ 1040 Pg 2** | **Acme Industries** |
|  |  | Line 14 | TW transfers the state wages from the W2 screen ($14,598) |
|  |  | **1040 Pg 3** | **Acme Industries** |
|  |  | Line 48 | TW transfers the state tax withheld from the W2 screen ($575) |
| **4** | **W-2** | **W2** | **Acme Diner** |
|  |  | Taxpayer Box | Check that this W-2 is for the taxpayer |
|  |  | Box for "Please verify Federal withholding...." | This box may be underlined in red after W-2 amounts have been entered. Check that the amounts entered in Boxes 1-6 are correct. Once verified, check box |
|  |  | Employer's name & address fields | Enter Employer ID # (EIN). TW will populate name & address if in database. Always check to make sure it matches printed W-2; address can frequently change |
|  | Box 1 | Box 1 | Enter Federal wages ($2,532). TW will automatically calculate the amounts in Boxes 3-6 |
|  | Box 7 | Box 1,3,4,7,8 | When you enter Box 1 Wages, Tips, etc., TW automatically populates Boxes 3, 4, 5, & 6. Box 3 for Social Security Wages does not match to the printed W-2. This is because the Box 1 amount also includes Social Security Tips from Box 7. (Box 3 ($1,944) + Box 7 ($588) = Box 1 ($2,532). Social Security Tips are tips that the employee reported to the employer  Once you enter the Box 7 amount ($588), TW will re-calculate the Box 3 amount to match the printed W-2, so there is no need to use the "Check to take calculations off lines 3, 4, 5, 6" box  The employer deducts SS & Medicare taxes from SS tips & includes them in Box 4 SS Tax Withheld & Box 5 Medicare Tax Withheld |
|  | Box 8 | Box 8 | Employer collects amounts of all tips reported by employees. If the total does not equal at least 8% of food & drink sales, the employer is required by law to allocate the difference across all employees & report taxpayer's share in Box 8 Allocated Tips  Employer does not withhold SS or Medicare taxes on allocated tips (see process below for calculating SS/Medicare taxes due) |
|  | Box 2 | Box 2 | Enter Federal income tax withheld ($328) |
|  | Box 14 | Box 14 | Note that NJ special taxes are shown in Box 19 on printed W-2. You should still enter them in Box 14 on TW W2 screen |
|  |  | Box 14, Unemployment and Family Leave | Also note that codes used on printed W-2 are not the same as the special codes pre-populated in TW. Use the special TW codes of NJSUI for UI/WF/SWF and NJFLI for FLI. Only if you use the special codes will TW transfer these NJ taxes to Sch A Line 5a for State and Local Taxes  Enter the UI/WF/SWF amount ($11) as NJSUI  Enter the FLI amount ($3) as NJFLI |
|  |  | Box 14, Disability | Notice that there is a Private Plan (PP) # for disability (DI). Private plans are not allowed to be deducted on Sch A; therefore, enter into TW with type = NJSDIPP, instead of NJSDI (which is used for state disability plan only). TW will then stop the amount from flowing through to Schedule A Line 5a State Income Taxes In addition, disability will not flow through to Form 2450 for Excess Unemployment & Disability |
|  | Box 16 | Box 16 | TW will automatically populate state wages with the amount from Box 1. Verify that Federal and state wages are the same |
|  | Box 17 | Box 17 | Enter state income tax ($201) |
|  |  | **4137 TP** | **Acme Diner** |
|  |  |  | TW populates Form 4137 in the forms tree when an amount is entered in Allocated Tips Box 8. This form is used to add allocated tips to 1040 Line 7 and to calculate SS and Medicare tax due on those tips |
|  |  | Line 3 | TW transfers SS tips from W2 ($588) |
|  |  | Line 4 | TW transfers allocated tips from W2 ($250). If the employee keeps a tip log that shows a different amount than allocated tips, you can use a scratch pad or override to adjust allocated tips amount to actual amount from tips log |
|  |  | Line 1a, Column C  Line 2 | TW automatically populates the total of Lines 3 + 4 |
|  |  | Line 11 | TW calculates the amount of SS tax due. This is based on 6.2% of the allocated tips ($250 x .062 = $16 |
|  |  | Line 12 | TW calculates the amount of Medicare tax due. This is based on 1.45% of the allocated tips ($250 x .0145 = $4) |
|  |  | Line 13 | TW calculates the total of the SS and Medicare taxes due on the allocated tips ($16 + 4 = $20) |
|  |  | **1040 Pg 1** | **Acme Diner** |
|  |  | Line 7 | TW transfers the Box 1 wages amount from the W2 screen ($2,532). It also transfers the allocated tips from 4137 TP Line 4 ($250), which are not included in Box 1 wages. Total wages for the two W-2s are now $17,380 ($14,598 + 2,532 + 250) |
|  |  | **1040 Pg 2** | **Acme Diner** |
|  |  | Line 57 | TW transfers the Social Security and Medicare Taxes due on the allocated tips from 4137 TP Line 13 ($20) and checks the box indicating that those taxes are from Form 4137 |
|  |  | Line 64 | TW transfers the Federal tax withheld from the W2 screen ($328). Total Federal tax withheld is now $1,330 ($1,002 + 328) |
|  |  | **Sch A** | **Acme Diner** |
|  |  | Line 5a | TW transfers the state income tax ($201) from the W2 screen  TW transfers the NJSUI and NJFLI amounts from the W2 screen ($11 + 3). It will not transfer the NJSDIPP amount since it is a private plan, not a state plan  Line 5a is now $922 from all the state taxes shown on the two W-2s ($575 + 56 + 6 + 55 + 15 + 201 + 11 + 3) |
|  |  | **NJ 1040 Pg 2** | **Acme Diner** |
|  |  | Line 14 | TW transfers the state wages from the W2 screen ($2,532) plus the allocated tips ($250). Total NJ wages are now $17,380 ($14,598 + 2,532 + 250) |
|  |  | **NJ 1040 Pg 3** | **Acme Diner** |
|  |  | Line 48 | TW transfers the state income tax from the W2 screen ($201). Total NJ taxes withheld is now $776 ($575 + 201) |
|  |  | **NJ 2450 TP** | **Private Plan Disability on Excess Unemployment and Disability Form** |
|  |  |  | The special code (NJSDI, NJSUI, NJFLI) amounts in Box 14 of the W2 screen also flow to the NJ 2450 TP Excess Unemployment and Disability form  The withholding in each category is subject to a maximum amount per person. Each employer is not allowed to withhold more that the max, but an employee working for more than one employer could end up having more than the max amount withheld. This form calculates any excess withholding which needs to be refunded as a result of having multiple employers. (See 2450 Line 3 for max amounts)  Entering disability using code NJSDIPP on the W2 screen not only stops the amount from flowing to Sch A, but also stops the amount from flowing to NJ Form 2450. Private plan amounts are allowed to be included in the calculation of excess payments, so you must manually enter the disability data |
|  |  | Line 1b, “Plan number” | Enter Private Plan 9786654 from W-2 |
|  |  | Line 1b, Column B  Description  Line 1 | Add the amount paid for the Private Plan Disability to Form 2450 by linking to a scratch pad from the Acme Diner disability box  Enter NJ 2450 TP PRIVATE PLAN DISABILITY  Enter ACME DINER PRIVATE PLAN DISABILITY = $72 |
|  |  | Line 5 | TW adds the disability amounts Laura had withheld by her two employers (Acme Industries $55 + Acme Diner $72 ) and determines that she paid $7 in excess disability |
|  |  | **NJ 1040 Pg 3** | **Excess Disability Insurance Withheld** |
|  |  | Line 53 | TW transfers the excess disability from NJ 2450 TP ($7). Laura will recoup this excess as part of her income tax refund |
| **5a** | **1099-R** | **1099R** | **Acme Retirement** |
|  |  | Taxpayer box | Check that this 1099-R is for the taxpayer |
|  |  | "Check if this is the taxpayer’s address shown on the 1099-R” line | Check this box since address is correct |
|  |  | Payer's name and address fields | Enter Payer ID #. TW will populate name and 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 ($5,000) |
|  | Box 2a | Box 2a | Enter taxable amount ($5,000) |
|  | Box 4 | Box 4 | Enter Federal income tax withheld ($750) |
|  | Box 7 | Box 7 | Ensure that Code 1 is entered. This indicates that it is an early distribution from an IRA (prior to age 59 1/2) and that the payer does not know about any exception from the 10% penalty that may apply  NOTE: The back of the 1099-R lists all Box 7 codes. Pub 4012 Page D-21 lists 1099-R codes and whether they are in or out of scope |
|  |  |  | Ensure that IRA box is checked so that amounts will transfer to 1040 Line 15 for IRAs, not Line 16 for pensions |
|  | Notes | 5329 TP | Based on Laura's input, the money from the IRA was used to pay off credit card debt. Check Pub 4012 Pg H-2 to see if that is an allowable exception to avoid the 10% penalty for an early distribution. It is not  Form 5329 TP 1 should automatically be added to the forms tree when code 1 is entered. However, since there is no allowable exception, do not complete this form |
|  |  | **1040 Pg 1** | **Acme Retirement** |
|  |  | Line 15b | TW transfers the taxable amount of the IRA distribution from the 1099R screen ($5,000) |
|  |  | **1040 Pg 2** | **Acme Retirement** |
|  |  | Line 59 | TW automatically populates a 10% penalty for the early distribution ($500) as an additional tax for IRAs, other qualified retirement plans, etc. |
|  |  | Line 64 | TW transfers the Federal income tax withheld ($750). The total withheld is now $2,080 |
| **5b** | **Notes** | **NJ IRA Wkt** | **Acme Retirement** |
|  |  |  | Once you enter info for a 1099-R IRA distribution, TW automatically populates an NJ IRA Wkt in the forms tree. However, it does not carry the income through to NJ 1040 until the NJ IRA Worksheet is completed. |
|  |  |  | Enter 1 as “copy number of the IRA you want to use this worksheet for” at top of IRA Worksheet. Since Laura has no records of her contributions, you cannot fill out the rest of this worksheet. Just “get the red out” |
|  |  | **NJ 1040 Pg 2** | **Acme Retirement** |
|  |  | Line 19a | Once the IRA Wkt is dealt with, the Pensions, Annuities and IRA Withdrawals line increases by $5,000 for this distribution  There is no early distribution penalty for NJ |
|  |  | Line 27a | Filing HOH, Laura is eligible for a pension exclusion of up to $15,000 because she is disabled. (Eligibility rules are 62 or older or disabled, NJ Gross Income $100K or less). However, the pension exclusion cannot exceed the amount on Line 19a. Therefore, the Line 27a exclusion will only be $5,000 at this point. If more pension, IRA, or annuity income is added to Line 19a, TW will adjust the pension exclusion as appropriate |
|  |  | **NJ 1040 Pg 3** | **Acme Retirement** |
|  |  | Line 39 | Since the pension exclusion offsets the IRA income, taxable income does not change |
|  |  | Line 51a | The NJ earned income tax credit (EITC) is based on 20% of the Federal earned income credit (EIC). Since the $5,000 IRA distribution was added to Federal income, the Federal EIC was reduced. Therefore, the NJ EITC also decreased (by $69) |
|  |  | Line 66 | Since the NJ EITC decreased by $69, Laura's refund also went down by $69 |
| **6** | **1099-R** | **1099R** | **Acme Pensions** |
|  |  | Forms Tree | Add another copy of 1099R screen in TW by clicking on + next to 1099R in forms tree |
|  |  | Taxpayer box | Check that this 1099-R is for the taxpayer |
|  |  | "Check if this is the taxpayer’s address shown on the 1099-R” line | Check this box since address is correct |
|  |  | Payer's name and address fields | Enter Payer ID #. TW will populate name and 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 ($5,400) |
|  | Box 2a | Box 2a | Enter taxable amount ($5,400) |
|  | Box 7 | Box 7 | Distribution code is 3 for disability  NOTE: The back of the 1099-R lists all Box 7 codes. Pub 4012 Page D-21 lists 1099-R codes and whether they are in or out of scope |
|  |  | "Check if disability and taxpayer is disabled" Line | Check the box under Box 7 on TW screen (“Check if disability and taxpayer is disabled.”) if and only if TP is under her employer’s minimum retirement age (59). Since Laura is only 46, you should check the box. This box is on TW screen—no corresponding box on 1099-R form  NOTE: Use context sensitive help on this line on TW screen for further details |
|  |  | **1040 Pg 1** | **Acme Pensions** |
|  |  | Line 7 and Line 16 | Checking this box will put the $5,400 distribution under Wages on 1040 Line 7, rather than under Pensions on 1040 Line 16. 1040 Line 7 should now be $22,780 |
|  |  |  | Having pre-retirement disability on 1040 Wages line, rather than on Pension line, could be important for EIC, the dependent care credit and the additional child tax credit (which all require earned income) |
|  |  | **NJ 1040** | **Acme Pensions** |
|  |  | Line 14  Line 19 | Once the disability box is checked, TW will exclude the disability amount from NJ income if the taxpayer is under 65. It will not be listed as either wages or pension |
| **7a** | **Notes** | **Sch C Pg 1** | **Acme Services** |
|  |  | Line A  Line B  Line F  Line G  Line H  Line I | Enter: "Editing" as principal business  Enter: "561410" as business code. Use NAICS Search tool in the left column on TaxPre4Free.org Preparer page to look up appropriate code  Check Cash box if not already checked (if not Cash, out of scope)  Check Yes box if not already checked, since Laura materially participated in the business  Do not check box since business started in 2011  Check No box since Laura did not have to file any forms 1099 |
| **7b** | **Notes** | **Sch C Pg 1** | **Acme Services** |
|  |  | Line 1 | Must link to 1099-MISC screen from Line 1 to enter Nonemployee Compensation; do not use the Add icon and enter directly on a 1099-MISC without linking because TWO will not be able to transfer the income back to Schedule C. 1099-MISC can be associated with other forms (such as 1040 Line 21, Schedule E, etc.) |
|  |  | **1099 MISC** | **Acme Services** |
|  |  | Line 7 | Enter nonemployee compensation ($12,176) |
|  |  | **Sch C Pg 1** | **Acme Services** |
|  |  | Line 1 | TW transfers nonemployee compensation from 1099 MISC. You may still need to "get the red out" |
| **7c** | **Notes** | **Sch C Pg 2** | **Acme Services** |
|  |  | Line 43 | Enter 07/01/2011 as the date the car was placed in service for business |
|  |  | Line 44a | Enter 234 business miles |
|  |  | Line 44c | Enter 10,000 other miles |
|  |  | Under Line 44 | Check box for TW to automatically calculate business mileage expenses at standard mileage rate of $.56 per mile (234 x .56 = $131). May already be checked |
|  |  | Line 45 | Check Yes box to indicate that car was available for personal use during off-duty hours |
|  |  | Line 46 | Check No box to indicate that Laura only has one car |
|  |  | Line 47a | Check Yes box to indicate that Laura has evidence to support her deduction |
|  |  | Line 47b | Check Yes box to indicate that the evidence was written |
|  |  | Part V | Enter other expenses:  Paper = $2,025  Printer cartridges = $1,048  Postage = $800  Business phone expenses = $350  Total Other Expenses = $4,223 |
|  |  | **Sch C Pg 1** | **Acme Services** |
|  |  | Line 9 | TW transfers business mileage expenses from Pg 2 under Line 44 ($131) |
|  |  | Line 27a | TW transfers total of all other business expenses from Pg 2 Part V ($4,223) |
|  |  | Line 28 | Total expenses = $4,354 |
|  |  | Line 31 | TW calculates a net profit of $7,822 ($12,176 - 4,354) |
|  |  | **1040 Pg 1** | **Acme Services** |
|  |  | Line 12 | TW transfers net income from Sch C ($7,822) |
|  |  | **1040 Pg 2** | **Self-Employment Tax** |
|  |  | Line 57 | After completion of Schedule C, TW automatically calculates Self-Employment Tax. Self-employment tax for 2014 was 15.3% of net earnings, with 12.4% for Social Security and 2.9% for Medicare |
|  |  | **1040 Pg 1** | **Deductible Part of Self-Employment Tax** |
|  |  | Line 27 | Laura is allowed to claim an adjustment to income for the employer-equivalent part of the self-employment tax. TW automatically calculates the employer-equivalent part as $553 |
|  |  | **NJ Bus 1** | **Acme Services** |
|  |  | Line 4 | TW transfers net profit from Sch C ($7,822) |
|  |  | **NJ 1040 Pg 2** | **Acme Services** |
|  |  | Line 17 | TW transfers net profit from NJ Bus 1 ($7,822) |
| **8** | **Notes** | **1040 Pg 1** | **Alimony Received** |
|  |  | Scratch Pad off Line 11  Description  Line 1 | Laura received alimony of $300 per month for 8 months ($2,400)  Document the alimony calculation on a scratch pad  Enter 1040 LINE 11 ALIMONY  Enter ALIMONY RECEIVED $300 FOR 8 MONTHS = $2,400  NOTE: Refer to Pub 4012 Page E-3 for alimony requirements |
|  |  | **NJ 1040 Pg 2** | **Alimony Received** |
|  |  | Line 24 | TW transfers alimony from 1040 ($2,400) |
| **9** | **Notes** | **2441 Pg 1** | **Acme Day Care Center**  **Edna Loy** |
|  |  |  | George and John are qualifying persons for the Child and Dependent Care credit (DC). See requirements on Pub 4012 Pg G-3. Rules state, "Only custodial parent may claim Child and Dependent Care credit even if child's exemption is being claimed by non-custodial parent under the rules for divorced and separated parents." Therefore, expenses for both children are eligible  Expenses paid to Acme Day Care Center can be claimed, as well as payments to Laura's sister. In both cases, Laura was working or looking for work. Expenses are only disallowed if paid to spouse/parent of child or to your child who was under age 19, not if to other relatives (Pub 4012 Page G-4) |
|  |  |  | TW automatically adds Form 2441 to forms tree when DC box is checked in dependents section of Main Info screen. Can use the same form for multiple care providers and multiple qualifying persons |
|  |  | Line 1a  Line 1b  Line 1c | Enter name for Acme Day Care Center and for Edna Loy  Enter address for Acme Day Care Center and for Edna Loy  Enter EIN for Acme (no dashes) and check EIN box. TW will put E in Type box  Enter SS # for sister (no dashes) with no check in EIN box. TW will put S in Type box  Enter total expenses paid to each provider for both children ($1,793 to Acme, $400 to Loy) |
|  |  | Scratch Pad off Line 2a  Description  Line 1  Line 2 | Separate the expenses for each child. For John, expenses were $903 for Acme + $200 for Loy = $1,103. For George, expenses were $890 + $200 = $1,090  Document each child's expenses on a separate scratch pad  Enter 2441 LINE 2A DEPENDENT CARE JOHN (OR GEORGE) LYNCH  Enter DAY CARE AT ACME DAY CARE = $903 (OR $890)  Enter CARE FROM EDNA LOY = $200 |
|  |  | Line 11 | TW calculates the allowable credit as $504 |
|  |  | **1040 Pg 2** | **Acme Day Care Center**  **Edna Loy** |
|  |  | Line 49 | TW transfers credit for Child and Dependent Care Expenses from 2441 ($504) |
| **10** | **Notes** | **Sch EIC Wkt** | **Earned Income Credit (EIC)** |
|  |  |  | Answer questions in sequence and only questions underlined in red. Be sure to follow GO TO directions carefully |
|  |  | Line 2 | Answer YES |
|  |  | Line 4a | Answer NO |
|  |  | Line 6 | Answer NO |
|  |  | Line 7 | Answer YES for both children |
|  |  | Line 8 | Answer YES for both children |
|  |  | Line 9a | Answer NO for both children. Father cannot claim John for EIC because John did not live with him for over half the year |
|  |  | Line 10 | Answer YES for both children |
|  |  |  | TW determines that both children qualify for EIC |
|  |  | Line below Line 10 | Answer NO |
|  |  | Lines 1 - 9 at bottom | TW calculates the amount of the EIC ($1,312) |
|  |  | **1040 Pg 2** | **Earned Income Credit** |
|  |  | Line 66a | TW transfers the EIC from Sch EIC Wkt ($1,312) |
|  |  | **NJ 1040 Pg 3** | **NJ Earned Income Credit** |
|  |  | Line 51a | TW calculates the NJ EITC which is 20% of the Federal ($262) |
| **11** | **Notes** | **1040 ACA Wkt** | **Health Insurance** |
|  |  | Line for Laura and George | Since Laura and George both had minimum essential coverage (MEC) for the full year, check the Full box on each of their lines. Neither had coverage through the Marketplace, so no further ACA action is necessary |
|  |  | Line for George | TW automatically checks the boxes for January - December on George's line since he was under 18 for all those months |
|  |  |  | John is not listed on the ACA Wkt. Since his father is claiming him as a dependent, the father will be responsible for reporting John's ACA information on his tax return |
| **12** |  | **Diagnostics** |  |
|  |  |  | Run diagnostics before doing education expenses comparison. Click on any errors found. TW will take you to incomplete/incorrect items. Correct and re-run diagnostics |
| **13a** | **Notes** | **1040 Wkt2** | **Education Expenses Claimed as Tuition and Fees Deduction** |
|  |  |  | Test to see results if you claim Laura's word processing course as a Tuition and Fees Deduction |
|  |  | Tuition and Fees as an AGI Deduction section | Link from 1040 Line 34 to 1040 Wkt 2or use Add icon to add to forms tree |
|  |  | Line for Laura | Enter qualified expenses of $575 next to Laura's name |
|  |  | **1040 Pg 1** | **Education Expenses Claimed as Tuition and Fees Deduction** |
|  |  | Line 34 | TW transfers total qualified expenses from 1040 Wkt2 as an adjustment to income. This causes AGI to decrease by $575 on the Federal return |
|  |  | **NJ 1040 Pg 2** | **Education Expenses Claimed as Tuition and Fees Deduction** |
|  |  | Line 39  Line 66 | NJ income remains the same since there is no adjustment for education expenses on the NJ 1040. However, the NJ refund changes. This is because the NJ EITC is based on 20% of the Federal EIC. Since Federal income and, therefore, EIC increases, the NJ EITC and refund also increases |
|  |  |  | Since the NJ refund can change when you enter education expenses, you must always evaluate the combined Federal and NJ results together to determine the best alternative for the client.  Note the combined Federal refund ($1,079) + NJ refund ($719) = $1,798 |
|  |  |  | Delete the education expenses from 1040 Wkt2 before doing another comparison. Note that AGI increases again when you take out the adjustment to income |
| **13b** | **Notes** | **8863 Pg 2** | **Education Expenses Claimed as Lifetime Learning Credit (LLC)** |
|  |  |  | Test to see results if you claim Laura's word processing course as an LLC |
|  |  |  | If Form 8863 is not already in the forms tree, link to it from 1040 Line 50 or use Add icon to add 8863 Pg 2 directly to the tree. TW automatically adds Form 8863 Pg 1 to the forms tree also |
|  |  | Lines 20 - 26 | Since this is just a test to evaluate results of claiming education expenses as LLC, you can ignore Lines 20 - 26 right now. If the LLC turns out to be the best option, you will have to complete Lines 20 - 26 for Laura |
|  |  | Line 31 | Enter $575 |
|  |  | **8863 Pg 1** | **Education Expenses Claimed as Lifetime Learning Credit** |
|  |  | Line 10 | TW transfers the Line 31 amount from 8863 Pg 2 |
|  |  | Line 19 | TW calculates the LLC as 20% of qualified expenses ($115) |
|  |  | **1040 Pg 2** | **Education Expenses Claimed as Lifetime Learning Credit** |
|  |  | Line 50 | TW transfers Nonrefundable LLC from 8863 Pg 1  Note Federal refund ($955) and NJ refund ($693) = combined refund of $1,648 |
|  |  |  | Compare the combined refund by claiming LLC ($1,648) to the combined refund by claiming Tuition and Fees deduction ($1,798). The combined refund is lower for LLC; therefore, the Tuition and Fees deduction is better than LLC in this case  Delete expenses on 8863 Line 31 before doing the next comparison |
|  | **Notes** | **8863 Pg 2** | **Education Expenses Claimed as American Opportunity Credit (AOC)** |
|  |  |  | Laura is not eligible to claim the AOC since she is not enrolled at least half-time in a degree program  Refer to Pub 4012 Page J-3 |
| **13c** | **Notes** | **Sch C Pg 2** | **Education Expenses Claimed as Business Expense** |
|  |  |  | Test to see results if you claim Laura's word processing course as a business expense |
|  |  | Part V | Enter word processing course under Other Expenses ($575) |
|  |  | **Sch C Pg 1** | **Education Expenses Claimed as Business Expense** |
|  |  | Line 27a | TW transfers total of all other business expenses from Pg 2 Part V ($4,798) |
|  |  | Line 31 | TW calculates a net profit of $7,247 ($12,176 - 131 - 4,798 = $7,247) |
|  |  | **1040 Pg 1** | **Education Expenses Claimed as Business Expense** |
|  |  | Line 12 | TW transfers re-calculated net profit from Sch C ($7,247) |
|  |  | **1040 Pg 2** | **Self-Employment Tax** |
|  |  |  | TW automatically updates Self-Employment Tax ($1,024) based on new business income |
|  |  | **1040 Pg 1** | **Deductible Part of Self-Employment Tax** |
|  |  | Line 27 | TW automatically updates the employer-equivalent part of the self-employment tax, which Laura can claim as an adjustment to income ($512) |
|  |  |  | Note the Federal refund ($1,141) and NJ refund ($727) = combined refund of $1,868 |
|  |  |  | Compare the combined refund by claiming a business expense ($1,868) to the combined refund by claiming the Tuition and Fees deduction ($1,798). The combined is higher when claiming as a business expense; therefore, this is the best option for the education expenses |
| **14** | **Notes** | **NJ Dep Wkt** | **John as Non-Dependent** |
|  |  | Line 2  Under Line for George | Refer to Pg 7 of NJ Special Handling document on TaxPre4Free.org Preparer page  The rules to qualify as a dependent are different than the rules to qualify for EIC. Therefore, even though John is a non-dependent on Main Info screen (code 0), he can still be used to qualify for EIC. However, TW does not carry non-dependent info through from the Federal return to the NJ Dependents 1040 Line 13. Therefore, you have to manually add John’s info to the NJ Dependents Worksheet so he shows for EITC purposes  In TW, the fields on the NJ Dep Wkt are considered calculated fields, so you have to override each field (F8) individually before TW will allow you to enter John’s name, SS # and birth year. Once added to Wkt, John will show In Dependents section of NJ 1040, but Exemptions will still show just 2 (Laura and George). If this step is not done, NJ may question the EITC amount that is based on 2 qualifying children (NJ EITC = 20% of Federal EIC)  NOTE: Some TaxWise User IDs may not have the authority to do overrides. If you cannot override, ask your Site Coordinator or ERO to assist |
| **15** | **Notes** | **NJ 1040 Pg 3** | **Use Tax** |
|  |  | Line 45 | Enter 0 since Laura did not make any out-of-state purchases. Must still "get the red out" (Ctrl-space or F3 or Toggle Estimated) |
| **16** | **Notes** | **NJ 1040 Pg 3, Worksheet F** | **Rent Paid** |
|  |  | Scratch Pad off Line 1 Rent  Description  Line 1 | Since Laura meets the eligibility requirements to claim the NJ property tax deduction/credit, complete Worksheet F  On the Rent line of Line 1, link to a scratch pad to document the amount of rent Laura paid for the year  Enter WORKSHEET F LINE 1 RENT PAID  Enter RENT PAID $1,000 per month x 12 MONTHS = $12,000  TW will calculate the 18% of rent that can be claimed as property tax ($2,160)  NOTE: You still have to "get the red out" of the property tax line |
|  |  | Worksheet F, under Line 7 | TW will complete the rest of Worksheet F and determine that it is better for Laura to claim the $50 Property Tax Credit on Line 49 than the Property Tax Deduction on Line 38 |
|  |  | Line 49 | TW transfers the $50 Property Tax Credit from Worksheet F |
|  |  | Line 37a and 37bb | Since Laura rents, you do not have to enter the block and lot numbers or the municipality code. Just "get the red out" |
| **17** |  | **Diagnostics** |  |
|  |  |  | Run Diagnostics and correct errors as needed |
| **18** | **Notes** | **NJ DD Wkt** | **Direct Deposit of NJ Refund** |
|  |  | Direct Deposit section | Since Laura indicated on the Intake Sheet that she does not want direct deposit for Federal and the Notes say she wants to do the same for NJ, click on the line that says “Check here to have a refund check mailed to you” |
| **19** |  | **Diagnostics** |  |
|  |  |  | "Get the red out" of any forms still red in the tree. This probably includes:  - The bank account info on Main Info screen  - NJ Pg 2 Line 19b for excludable pension income |
|  |  |  | 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 |