| **Step** | **Form / Note** | **TW Screen** | **Learning Points** |
| --- | --- | --- | --- |
| **0** | **Intake Sheet** |  |  |
|  | Dependents' lines, gray section |  | Fill in Page 1, shaded area, based on info in Notes 2 and 7:- Question 1 – NO for all- Question 2 – NO for all- Question 3 – YES for all- Question 4 – YES for all- Question 5 – YES for allBased on these answers & Pub 4012 Page C-5, all 3 can be claimed as a qualifying child for dependency |
| **1a** | **Intake Sheet** | **Main Info** |  |
|  | Part I | General Info | No need to put anything in % address line. Husband died in 2012 |
|  | Part II | Filing Status | Use Chart on Page B-1 in Pub 4012. Hilda can file as Qualifying Widow with Dependent Child for the next 2 tax years after her husband died (2013 & 2014). Must enter year spouse died (2012) next to QW filing status |
|  | Part II | Dependents | List dependents, starting with youngestDeloris – Daughter, Code 1 “Child Who Lives with You,” EIC checked. TW will automatically check CTC since Deloris qualifies for CTCEdna – Daughter, Code 1 “Child Who Lives with You,” EIC checked. TW will not check CTC since Edna is too old to qualifyRonald – Son, Code 1 “Child Who Lives with You," EIC checked (Ronald might qualify for EIC since he is < 24 and a full-time student). TW will not check CTC since Ronald is too old to qualify |
|  | Part VII | Presidential Election Campaign Fund | Should not be checked |
| **1b** | **Intake Sheet** | **NJ 1040 Pg 1** |  |
|  |  | 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** |  |
|  |  | Line 11 Dependents attending colleges | Since Ronald is 23, no additional NJ exemption can be claimed for Dependents Attending College (must be under 22) |
|  |  | Line 13 | All dependents have health insurance, so nothing needs to be checked |
|  |  | Gubernatorial Election Campaign Fund | Check NO  |
| **1d** | **Intake Sheet** | **Prep Use** |  |
|  | Part VII | Line 11 | Answer NONE to language question |
|  |  | Line 12 | Answer NO to disabled question |
|  |  | Line 13 | Your initials |
|  |  | Line 14 | Do NOT fill in now – filled in by QR person after Quality Review is finished |
| **2** | **W-2** | **W2** | **Acme Industries** |
|  |  | "Check if this is the taxpayer’s address shown on the W-2G” line | Check this box since address is correct |
|  |  | Employer's name & address fields | Enter Employer's ID #. 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 ($35,965) |
|  | Box 2 | Box 2 | Enter Federal tax withheld ($3,982) |
|  |  | Boxes 3-6, 12 | When you enter Wages in Box 1, Boxes 3, 4, 5, & 6 do not match printed W-2. However, once you enter code D $1,657 in Box 12 for an elective deferral to a 401K account, TW will change those boxes. Therefore, wait to check box “to take calculations off Lines 3, 4, 5, & 6” until rest of W-2 is entered to see if Boxes 3-6 now match |
|  | Boxes 12a & 12b | Box 12 | Enter Code D amount for 401K ($1,657) and Code DD amount ($3,600) for cost of health insurance (includes employer amount) |
|  | Box 13 | Box 13 | Ensure that Retirement Plan is checked |
|  | Box | Box 14 | Notice that codes used on printed W-2 are not the same as the special codes pre-populated on W2 screen. You must use the special TW codes: NJSUI for UI; NJSDI for DI; 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 |
|  | Employer's state ID number | State ID number | Enter 819xxxxxx |
|  | Box 16 | Box 16 | NJ wages do not match federal wages (NJ is $660 higher), so check box on top of W-2 screen to take calculations off box 16 and enter amount shown on W-2 paper form.Although 401K money is pre-tax for both federal and NJ, Hilda’s dental insurance ($660) is pre-tax for federal, but after-tax for NJ. This will be handled later once the NJ return is complete. Must ask taxpayer about difference in Federal and NJ wages to determine that difference is due to dental insurance. Can usually obtain amount from end-of-year pay stub |
|  | Box 17 | Box 17 | Enter NJ income tax withheld ($725) |
|  |  | **1040 Pg 1** | **Acme Industries** |
|  |  | Line 7 | TW transfers the Box 1 wages amount from the W2 screen ($35,965) |
|  |  | **1040 Pg 2** | **Acme Industries** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the W2 screen ($3,982) |
|  |  | **Sch A** | **Acme Industries** |
|  |  | Line 5a | TW transfers the NJ income tax withheld, as well as the NJSDI, NJSUI, and NJFLI amounts from the W2 screen ($1,011) |
|  |  | **NJ 1040 Pg 2** | **Acme Industries** |
|  |  | Line 14 |  TW transfers the state wages from the W2 screen ($36,625) |
|  |  | **NJ 1040 Pg 3** | **Acme Industries** |
|  |  | Line 48 | TW transfers the state tax withheld from the W2 screen ($725) |
| **3**  | **1099-INT** | **Interest Stmt** | **Acme Bank** |
|  | Box 1 | Line 1- Payer Column- Box 1 or 3 Amount Column- NAEOB & State Adjust Columns | Enter Acme Bank as payerEnter taxable interest ($289)Interest is taxable for both Federal & NJ so no NAEOB or state adjustment entry is necessary |
|  |  | **Sch B** | **Acme Bank** |
|  |  | Line 1b | TW transfers the taxable interest from the Interest Stmt screen ($289) |
|  |  | **1040 Pg 1** | **Acme Bank** |
|  |  | Line 8a | TW transfers the taxable interest from the Interest Stmt screen ($289) |
|  |  | **NJ 1040 Pg 2** | **Acme Bank** |
|  |  | Line 15a | TW transfers the taxable interest from the Interest Stmt screen ($289) |
| **4** | **W-2G** | **W2G** | **Acme Casino** |
|  |  |  | If W2G is not in forms tree, link to 1040 Wkt7 Line 21: Other Income Worksheet screen from 1040 Line 21. Link again to W2G screen from Line 1 "Gambling Winnings from Form W-2G." You could also use Add icon above forms tree to add W2G directly to tree |
|  |  | "Check if this is the taxpayer’s address shown on the W-2G” line | Check this box since address is correct |
|  |  | Payer's name & address lines | Enter Payer Federal ID #. TW will populate name & address if in database. Always check to make sure it matches printed W-2G; address can frequently change |
|  | Box 1 | Box 1 | Enter gross winnings ($1,500). Federal taxes gross gambling winnings. NJ taxes net gambling amount (winnings minus losses, up to amount of winnings) |
|  | Box 2 | Box 2 | Enter 06/24/2014 as date won |
|  | Box 3 | Box 3 | Enter SLOTS as the type of wager |
|  |  | Line at bottom of W2G screen | Enter $2,000 gambling losses. Even though the losses exceed the winnings, put in total loses. TWO will limit the losses amount to the winnings amount |
|  |  | "See F-1 help" box on lower left of W2G screen | Since this is not lottery winnings and is, therefore, taxable for NJ, there is no need to check "See F-1 help" box  |
|  |  | **Sch A** | **Acme Casino** |
|  |  | Line 28 | TW will transfer $1,500 of the losses (up to amount of winnings) to Sch A Line 28. Gambling losses are not subject to the 2% of AGI limitation that most miscellaneous deductions are. Taxpayer only benefits from the losses on the Federal return if he claims itemized deductions instead of the standard deduction |
|  |  | **1040 Wkt7** | **Acme Casino** |
|  |  | Line 1 | TW transfers gross gambling winnings from W2G screen ($1,500)  |
|  |  | **1040 Pg 1** | **Acme Casino** |
|  |  | Line 21 | TW transfers gross gambling winnings from 1040 Wkt7 ($1,500). TW will use "GAMBLING WINNINGS" as the Type on Line 21 |
|  |  | **NJ 1040 Pg 2** | **Acme Casino** |
|  |  | Line 23 | TW nets the losses against the winnings for NJ 1040. Therefore, NJ Net Gambling Winnings are 0 |
|  |  | **NJ 1040 Pg 3** | **Acme Casino** |
|  |  | Line 39Line 51aLine 66 | Since NJ Net Gambling Winnings are 0, NJ Taxable Income does not change. However, the NJ refund decreases due to a decrease in the Earned Income Tax Credit (EITC). NJ's EITC is calculated based on 20% of the Federal EIC. The Federal EIC decreased because their Federal income increased by the amount of the gross gambling winnings. The Federal EIC went from $1,575 to $1,260; NJ's EITC went from $315 to $252  |
| **5** | **1099-G** | **1099G** | **New Jersey Department of Labor** |
|  | Box 1 | Line 2 | Enter unemployment benefits received ($1,754) |
|  | Box 4 | Line 5 | Enter Federal tax withheld ($98) |
|  |  | **1040 Pg 1** | **New Jersey Department of Labor** |
|  |  | Line 19 | TW transfers the unemployment amount from the 1099G screen ($1,754) |
|  |  | **1040 Pg 2** | **New Jersey Department of Labor** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the 1099G screen ($98) |
|  |  | **NJ 1040 Pg 2** | **New Jersey Department of Labor** |
|  |  | Lines 39Line 51aLine 66 | Unemployment is not taxable for NJ, so NJ Taxable Income does not change. NJ refund does change, due to a decrease in EITC from $252 to $178. Federal EIC decreased because Federal income increased by amount of Unemployment. Therefore, NJ's EITC, based on 20% of Federal EIC, also went down |
| **6a** | **1099-R** | **1099R** | **Office of Personnel Management** |
|  |  |  | See Pub 4012, Page D-26 section 2 for info on CSA-Form 1099-R |
|  |  | "Check if this is the taxpayer’s address shown on the 1099-R” line | Check this box since address is correct |
|  |  | 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 pension distribution ($17,585) |
|  | Boxes 1, 2a & 9b | Boxes 1, 2 & 9bBox 2a | Taxable Amount in Box 2a is less than Gross Distribution in Box 1 due to Employee Contributions (Box 9b). Contributions are allocated over the expected life of the pension, and a portion of the contributions is excluded from taxable income each year. The Office of Personnel Management has already calculated the taxable amount in Box 2a, so the Simplified Method Worksheet does not have to be completedEnter taxable amount ($16,570) |
|  | Box 4 | Box 4 | Enter the Federal income tax withheld ($2,250) |
|  | Box 5 | Box 5  | Amount in Box 5 of CSA-1099-R is for health insurance premiums paid by the annuitant. This amount must be manually entered on the A Detail screenAlthough TP is not itemizing, all medical amounts should be entered on A Detail anyway because NJ uses a lower 2% threshold; if the threshold is met, the proper amount will show up on NJ 1040 Line 30 |
|  | Box 7 | Box 7 | Code 4 indicates that this distribution is for death benefits from her late husband's joint/survivor annuity |
|  | Box 9b | Box 9b | Enter the total employee contributions to the pension ($34,250) |
|  |  | **1040 Pg 1** | **Office of Personnel Management** |
|  |  | Line 16a | TW transfers the gross pension distribution from Box 1 on the 1099R screen ($17,585) to the Pensions and Annuities line |
|  |  | Line 16b | TW transfers the taxable amount of the pension from Box 2 on the 1099R screen ($16,570) to the Taxable Amount line |
|  |  | **1040 Pg 2** | **Office of Personnel Management** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the 1099R screen ($2,250) |
|  |  | **NJ 1040 Pg 2** | **Office of Personnel Management** |
|  |  | Line 19a | TW transfers the taxable amount of the pension from the 1099R screen ($16,570) |
|  |  | Line 27 | TW determines that Hilda is not eligible for the NJ Pension Exclusion because she is not 62 or older or disabled  |
| **6b** | **CSA 1099R** | **A Detail** | **Health Insurance Premiums** |
|  | Box 5 | Insurance Premiums Paid | Since Box 5 on the CSA1099R shows health insurance premiums paid by the annuitant, enter $1,150  |
|  |  | **NJ 1040 Pg 2** | **Office of Personnel Management** |
|  |  | Line 30 | TW transfers the health insurance premiums from Sch A to the NJ 1040. It then calculates the amount of medical expenses that are greater than 2% of NJ Gross Income on Line 28 (Gross Income of $53,484 x .02 = $1,070. Medical expenses of $1,150 - 1,070 = $80) TW populates the amount over 2% as NJ Medical Expenses ($80)TW will automatically re-calculate the 2% of NJ Gross Income and Medical Expenses amounts as new entries are added to the return |
| **6c** | **1099-R** | **NJ 1040 Pg 2** | **Office of Personnel Management** |
|  |  | Line 19b Scratch Pad- Description - Line 1- Line 2 | Link to a scratch pad to document the excludable portion of this distributionEnter "NJ1040 LINE 19B EXCLUDABLE PENSION"Enter "OPM GROSS DISTRIBUTION (BOX 1) = $17,585Enter "OPM TAXABLE AMOUNT (BOX 2A) = $-16,570TW calculates an excludable amount of $1,015 |
| **7a** | **1099-R** | **1099R** | **Acme Retirement** |
|  |  | Forms Tree | Add another copy of 1099R screen in TW by clicking on + next to 1099R in forms tree |
|  |  | 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 pension distribution ($5,000) |
|  | Box 2a | Box 2 | Enter taxable amount ($5,000) |
|  | Box 4 | Box 4 | Enter Federal income tax withheld ($500) |
|  | Box 7 | Box 7 | Ensure that IRA is checked so that amounts will transfer to 1040 Line 15 for IRAs, not Line 16 for pensionsEnsure 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 applyNOTE: The back of the 1099-R lists all Box 7 codes. Pub 4012 Page D-21 lists 1099-R codes & whether they are in or out of scope |
|  |  | "Check to force Form 5329" Box | Based on the Notes, the money from the IRA was used for Ronald's education, which is an allowable exception to avoid the 10% penalty for an early distributionForm 5329 TP 1 should automatically be added to the forms tree when code 1 is entered. If it isn't, check box under Box 7 to force Form 5329 into forms tree. DO NOT add 5329 by using Forms List or Add icons |
|  |  | **1040 Pg 1** | **Acme Retirement** |
|  |  | Line 16a | TW transfers the gross pension distribution from Box 1 on the 1099R screen ($5,000) to the Pensions and Annuities line |
|  |  | Line 16b | TW transfers the taxable amount of the pension from Box 2 on the 1099R screen ($5,000) to the Taxable Amount line |
|  |  | **1040 Pg 2** | **Acme Retirement** |
|  |  | Line 64 | TW transfers the Federal tax withheld from the 1099R screen ($500) |
|  |  | **NJ 1040 Pg 2** | **Acme Retirement** |
|  |  | Line 19a | TW does not add any IRA income to the NJ Pensions, Annuities, and IRA Withdrawals line until the NJ IRA Wkt is completed (in Step 7c) |
| **7b** | **Notes** | **5329 TP 1** | **Acme Retirement** |
|  |  | Line 2 | Consult Pub 4012 Page H-2 to determine proper exception code to use for education expenseEnter 08 on Line 2. To exempt the whole distribution from the penalty, also enter $5,000 |
|  |  | Line 4 | TW will show an additional tax of $0 |
|  |  | **1040 Pg 2** | **Acme Retirement** |
|  |  | Line 59 | Since there is no additional tax for this early distribution, TW will transfer 0 to the 1040 |
| **7c** | **1099-R** | **NJ IRA Wkt** | **Acme Retirement** |
|  |  | Forms Tree | TW generates a NJ IRA Worksheet in the forms tree as soon as the 1099-R was entered with IRA checked in Box 7 |
|  |  | Part I | TW shows that this return has one IRA distribution at this point. Enter 1 as the copy number of the IRA you want to use this worksheet for. |
|  |  | Line 1 | Enter $45,000 as the value of IRA on 12/31/2014  |
|  |  | Line 2 | TW transfers the $5,000 distribution from the 1099R screen |
|  |  | Line 3 | TW calculates the total value of the IRA by adding the value on 12/31 + amount withdrawn during the year ($45,000 + 5,000 = $50,000) |
|  |  | Line 4a | Since this is Hilda's first withdrawal from this IRA, enter $20,000 as the total of IRA contributions that were previously taxed on Line 4a. Line 4b would be used in subsequent years of withdrawalsTaxpayers rarely have records to prove how much of their contributions were previously taxed. Therefore, this worksheet can rarely be completed, and the whole IRA distribution will be taxable. If no info available, just "get the red out" of Line 1 (Ctrl-space or F3 or Toggle Estimated) |
|  |  | Line 7 | TW calculates the taxable portion of this year's withdrawal ($3,000) |
|  |  | Line 8 | TW calculates the excludable portion of this year's withdrawal ($2,000) |
|  |  | **NJ 1040 Pg 2** | **Acme Retirement** |
|  |  | Line 19a | TW adds the $3,000 taxable portion of the IRA withdrawal to the taxable portion of the Office of Personnel Management pension already on Line 19a ($3,000 + 16,570 = $19,570) |
|  |  | Line 19b | TW adds the $2,000 excludable portion of the IRS withdrawal to the excludable portion of the Office of Personnel Management pension already on Line 19b ($2,000 + 1,015 = $3,015). No manual entry on a scratch pad is necessary for an IRA if the IRA Wkt is completed |
|  |  |  | The total of Line 19a ($19,570) + Line 19b ($3,015) should equal the gross amounts of all pensions taxable in NJ (Office of Personnel Management $17,585 + Acme $5,000) |
| **8** | **Notes** | **1040 Wkt2** | **Student Loan Interest** |
|  |  |  | Link to 1040 Wkt2 Student Loan Interest section from 1040 Line 33 or use Add icon above forms tree to add 1040 Wkt2 directly to tree |
|  |  | Student Loan Interest section, Line 1, Taxpayer Column  | Enter $386 |
|  |  | Line 2 | The student loan interest deduction is usually the amount of interest paid, up to $2,500. However, it can be limited based on Modified Adjusted Gross Income (MAGI). The interest deduction phases out when MAGI exceeds $65,000 ($130,000 MFJ) and is 0 when MAGI exceeds $80,000 ($160,000 MFJ). TW tells you under Line 1 that Hilda's MAGI prior to this deduction is $61,078. Therefore, the entire student loan deduction can be claimed  |
|  |  | **1040 Pg 1** | **Student Loan Interest** |
|  |  | Line 33 | TW transfers the Student Loan Interest Deduction from 1040 Wkt2 ($386) |
| **9a** | **Notes** | **1040 Pg 1** | **Still Red in Forms Tree** |
|  |  | Box above Line 10 | Answer question NO since Hilda did not itemize last year  |
| **9b** | **Notes** | **Sch EIC** | **May Be Red in Forms Tree** |
|  |  | Lines 4a/4b | If Sch EIC is red in the forms tree, answer any question in red. Be sure to follow "GO TO" instructions |
| **10** | **Notes** | **NJ 1040 Pg 2** | **NJ After-Tax Dental Insurance** |
|  |  | Scratch Pad off Line 30DescriptionLine 1 | See NJ Special Handling document Page 6 for detailed instructions on how to handle NJ After-Tax Medical ExpensesIn this case there is already an amount on Line 30 ($20) because the medical amount on the A Detail screen is over the 2% threshold for NJ. Therefore, just enter the amount of NJ after-tax dental insurance through Acme Industries on a scratch pad off Line 30. (Remember, this cannot be added on A Detail screen because it is pre-tax Federal)Enter NJ 1040 LINE 30 MEDICAL EXPENSESEnter NJ AFTER-TAX DENTAL INSURANCE = $660The scratch pad amount will be added to the existing amount ($660 + 20 = $680) |
| **11** | **Notes** | **NJ 1040 Pg 3** | **Use Tax** |
|  |  | Line 45 |  Enter 0 since Hilda did not make any out-of-state purchases. Must still "get the red out" (Ctrl-space or F3 or Toggle Estimated) |
| **12** | **Notes** | **NJ 1040 Pg 3** | **NJ Property Tax Credit/Deduction for Rent Paid** |
|  |  | Worksheet F, Line 1 Scratch PadDescriptionLine 1 | Since Hilda meets 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 Hilda paid for the yearEnter NJ 1040 WKT F LINE 1 RENT PAIDEnter RENT$800 PER MONT X AS MONTHS = $9,600. TW will calculate the 18% of rent that can be claimed as property tax ($1,728) |
|  |  | Worksheet F, under Line 7 | TW will complete the rest of Worksheet F and determine that it is better for Hilda to claim the $50 Property Tax Credit on Line 49 rather than the Property Tax Deduction on Line 38 |
|  |  | Line 49 | TW transfers the $50 Property Tax Credit from Worksheet F |
|  |  | Lines 37b & 37c | Since Hilda rents, you do not have to complete the block and lot information or the municipality code |
| **13a** | **Notes** | **Diagnostics** |  |
|  |  |  | Run Diagnostics to ensure that there are no errors before doing the education expenses comparison. Click on any errors, and TW will usually take you to the form that needs to be fixed. Once all errors are fixed, run Diagnostics again to confirm |
| **13b** | **Notes** |  | **Education Expenses** |
|  |  |  | To determine the amount of qualified education expenses, you must subtract amount of scholarship/grant ($10,000) from tuition and fees expenses ($16,900).  |
|  |  |  | “Qualified education expenses paid by a dependent for which an exemption is claimed, or by a third party for that dependent, are considered paid by the taxpayer.” (Pub 4012 Page J-4) Therefore, Hilda can claim an education credit even though Ronald’s grandmother made the payments for his tuition & fees directly to the university |
|  |  | **1040 Wkt2** | **Education Expenses Claimed as Tuition & Fees Deduction** |
|  |  | Tuition & Fees as an AGI Deduction section | Link from 1040 Line 34 to 1040 Wkt 2 |
|  |  | Line for Ronald | Enter qualified expenses of $6,900 next to Ronald's name |
|  |  | Line 3 | TW automatically limits total qualified expenses to $4,000, maximum amount allowed. Thus, the Tuition & Fees deduction is $4,000 |
|  |  | **1040 Pg 1** | **Education Expenses Claimed as Tuition & Fees Deduction** |
|  |  | Line 34 | TW transfers the Tuition & Fees deduction from 1040 Wkt2 ($4,000)Note combined refund ($4,528) = Federal refund ($4,466) plus NJ refund ($62)Delete this info before doing another comparison |
| **13c** | **Notes** | **8863 Pg 2**  | **Education Expenses Claimed as Lifetime Learning Credits (LLC)** |
|  |  |  | Link to Form 8863 Pg 2 from 1040 Line 50. TW will automatically add Form 8863 Pg 1 to the forms tree also  |
|  |  | Line 20 | Enter Ronald's name |
|  |  | Line 21 | Enter Social Security # |
|  |  | Line 22a | Enter Acme College |
|  |  | Line 22a-1 | Enter address of College |
|  |  | Line 22a-2 | Answer YES |
|  |  | Line 22a-3 | Answer NO |
|  |  | Line 22a-4 | Enter College's Federal ID #  |
|  |  | Line 23 | Answer NO |
|  |  | Line 24 | Answer YES |
|  |  | Line 25 | Answer NO |
|  |  | Line 26 | Answer NO |
|  |  | Line 31 | Enter $6,900 as qualified expenses |
|  |  | **8863 Pg 1** | **Education Expenses Claimed as Lifetime Learning Credits** |
|  |  | Line 19 | LLC is usually 20% of qualified expenses ($1,380). However, the credit is phased out for AGI between $54,000 and $64,000 ($108,000 - 128,000 MFJ). (Refer to chart on Page J-3 of Pub 4012). Hilda's AGI is $60,692. Therefore, TW calculates that her Nonrefundable Education Credit is only $457 in Part II  |
|  |  | **1040 Pg 2** | **Education Expenses Claimed as Lifetime Learning Credits** |
|  |  | Line 50 | TW transfers Nonrefundable Lifetime Learning Credit from 8863 Pg 1 ($457).Note Combined refund ($4,385) = Federal refund ($4,323) plus NJ refund ($62)  |
|  |  |  | Compare Federal refund & NJ refund by using LLC with results obtained by claiming Tuition & Fees deduction. Federal refund decreased by $143. NJ refund stayed the same. (NJ could change, even though education credits do not directly affect NJ, if client is eligible for EITC; EITC is based on 20% of Federal EIC. EITC does not pertain to this problem). Therefore, Tuition and Fees deduction is better than Lifetime Learning Credit in this case |
|  |  |  | Delete expenses on 8863 Line 31 before doing comparison for American Opportunity Credit (AOC). Entries on Lines 20-26 can remain since they are necessary for AOC |
| **13d** | **Notes** | **8863 Pg 2** | **Education Expenses Claimed as American Opportunity Credit (AOC)** |
|  |  | Lines 20 - 26 |  All lines remain the same as above until you reach expense lines |
|  |  | Scratch pad off Line 27DescriptionLine 1Line 2Line 3 | Directions say to enter maximum of $4,000 (TW performs calculation correctly even if you enter the full $6,900, but an error will be generated if you run Diagnostics and the amount is over $4,000)Enter FORM 8863 LINE 27 AOC EDUCATION EXPENSESEnter TUTION AND FEES TO SCHOOL = $16,900Enter MINUS SCHOLARSHIP = $-10,000Enter MINUS ADJUSTMENT TO REACH MAXIMUM ALLOWABLE EXP = $-2,900 |
|  |  | **8863 Pg 1** | **Education Expenses as American Opportunity Credit** |
|  |  | Line 8 | TW calculates a Refundable Education Credit of $1,000 in Part I |
|  |  | Line 19 | TW calculates a Nonrefundable Education Credits of $1,500 in Part II |
|  |  |  | Note Combined refund ($6,428) = Federal refund ($6,366) plus NJ refund ($62).This is the most beneficial option to claim the education expenses, so leave these entries in return |
|  |  | **1040 Pg2** | **Education Expenses Claimed as as American Opportunity Credit** |
|  |  | Line 50 | TW transfers the Nonrefundable Education Credit from 8863 Pg 1 Line 19 |
|  |  | Line 68 | TW transfers the Refundable Education Credit from 8863 Pg 1 Line 8 |
| **14** | **Notes** | **1040 ACA Wt** | **Health Insurance** |
|  |  | Line for taxpayer, spouse, and each dependent | Since Hilda and her three children 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 Full-Year Coverage box to show that the entire family was covered for the full year |
| **15** |  | **Diagnostics** |  |
|  |  |  | Run Diagnostics again to ensure that there are no errors before handling refund/amount due |
| **16** | **Notes** | **NJ DD Wkt** |  |
|  |  | Direct Deposit section | Since Hilda indicated on the Intake Sheet that she does not want direct deposit for Federal and Notes says she wants to do the same for NJ, click on the line that says “Check here to have a refund check mailed to you” |
| **17** |  | **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 |