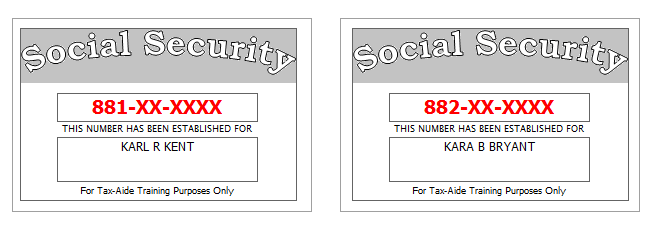
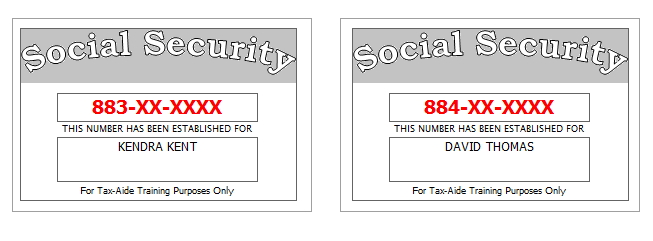
Step 0 Intake + Interview 🡺 Filing Status, Dependency







Karl and Kara have been married for several years and are currently full-time residents of Pluckemin, New Jersey. They want to file both a federal and a state return.

Their daughter, Kendra, is a full-time student classified as a junior at her college.

No one else can claim Kendra or Dave as a dependent.

Carmen Bryant is Kara’s older sister who is totally and permanently disabled. Carmen lived with the Kents all year and was fully supported by them. No one else can claim her as a dependent and she earned no income.

Karl and Kara provided 100% of the support for both Kendra and Dave.

**Reference:** 4012 Tab A, B, C

**Tool:** IRS Interactive Tax Assistant (link on Preparer page)

**Tool:** AARP Resource Tool for Counselors (Laminated Flow Chart

**Tool:** TP4F Qualifying Child/Qualifying Relative Flowchart Tool (link on Preparer page)

**Tool:** Dependent Calculator (link on Preparer page)

Step 1 Basic Information

Use the Filing Status from Step 0

Use Intake Sheet and Social Security cards

Extra Interview information for New Jersey:

* All dependents have health insurance (as of the time the return is filed)
* Kendra is 21 and is a full-time student classified as a junior at her college.
* Kara would like $1 to go to the Gubernatorial Election Campaign Fund, while Karl does not wish to contribute to the Gubernatorial Fund.

**Reference:** 4012 B-12 to B-18

**Tool:** NJ Municipality Code Lookup Tool (link on Preparer page)

**Tool:** NJ 1040 Instructions – Municipality Code Table

**Hint:** For Profile, use Basic (No Profile)

**Hint:** Use names from SS Cards (NOT Intake Sheet)

**Hint:** A simple NJ return will be added after filling in the Federal Personal Information screen. Answer only the subset of the NJ Basic questions asked

**Hint:** Do not go to the State Section and do anything until you are done with the Federal Section and Health Insurance sections. Use the NJ Checklist to record things you will need to remember when doing the State Section later.

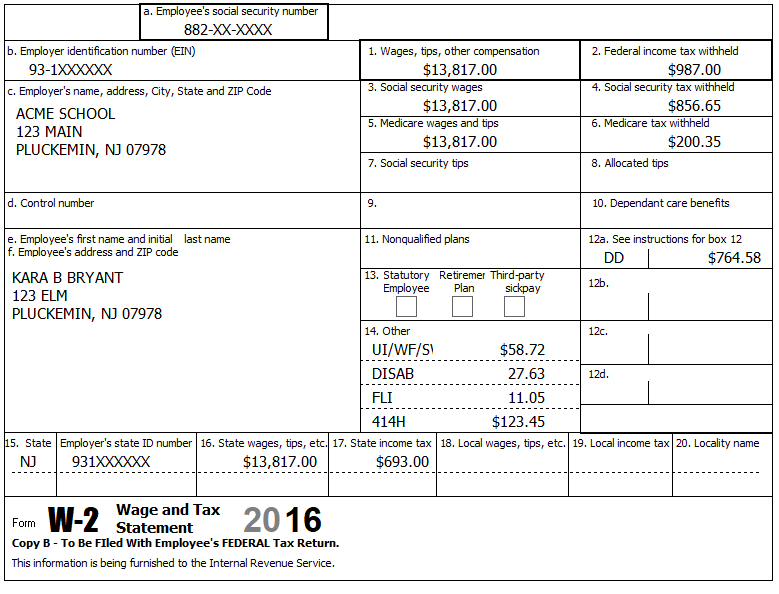
**Hint:** You do not need to remember or record the NJ PIN

**Hint:** Add each dependent separately

**NJ:** Fill in Basic Information section of NJ Checklist now

**Federal Refund: 0 NJ Refund Amount: 0**

Step 2 W-2



**Reference:** 4012 D-4 to D-6

**Reference:** NJ Special Handling p?

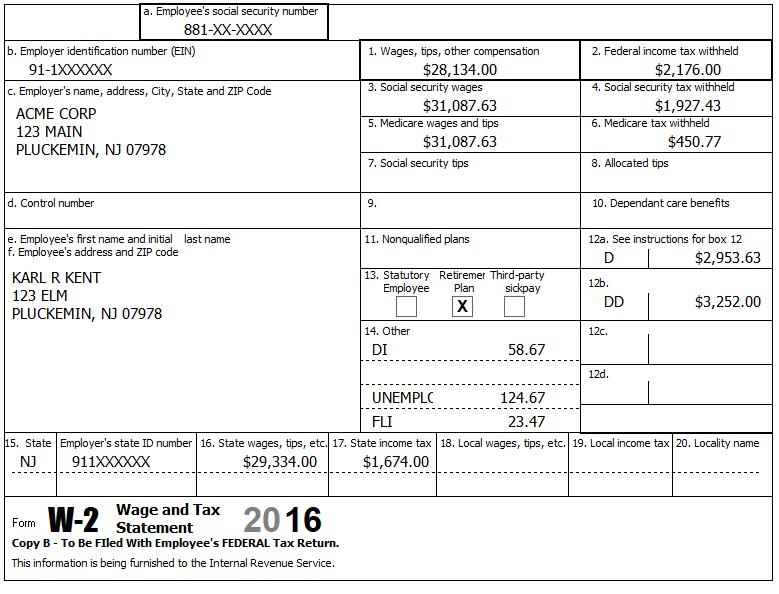
**Hint:** If a name and address of the employer come up after inputting the Employer Identification Number, check that the information is correct and change as necessary

**Hint:** Box 14 NJ codes may not match dropdown exactly

**Hint:** The 414H in box 14 is a pension. The code should be “Retirement (Not in Box 12) Do not carry to form 8880

**Federal Refund: 8,208 NJ Refund Amount: 2,870**

Step 3 W-2



Karl’s W-2 / final pay stub had extra detail showing $1,200 for a Section 125 (pre-tax federal / after-tax NJ) Dental plan.

**Reference:** 4012 D-4 to D-6

**Reference:** NJ Special Handling p?

**NJ:** Record Section 125 amount on NJ Checklist now

**Federal Refund: 6,003 NJ Refund Amount: 2,663**

Step 4 Seller Financed Mortgage

Neither Karl nor Kara had an interest in or a signature or other authority over a financial account in a foreign country.

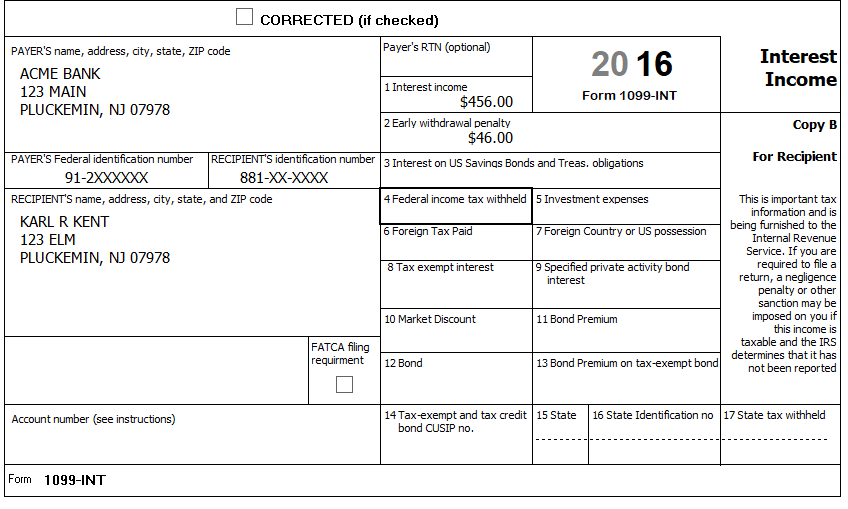
Last year’s return showed a seller-financed mortgage on Sch B.

Karl is collecting payments on a seller-financed mortgage. The purchaser is Charles Campbell (SSN 885-XX-XXXX), 123 Maple, Pluckemin, NJ 07978. This year Karl received $2,782.15 interest on that loan.

**Reference**: 4012 D-7, D-10

**Federal Refund: 5,149 NJ Refund Amount: 2,412**

Step 5 1099-INT



**Reference**: 4012 D-7 to D-8

**Federal Refund: 5,025 NJ Refund Amount: 2,376**

Step 6 Brokerage Statement Page 1 of 3 – 1099-INT

|  |  |  |  |
| --- | --- | --- | --- |
| **Acme Brokerage** | End of Year Tax Information Statement  Account 203040506 | Statement Date: 01-30-2017  Page 1 of 3 | 2016 |
| 123 Main Street  P.O. Box 07978-123  Pluckemin, NJ 07978  PAYER’S Federal ID No: **92-2XXXXXX** | Karl R. Kent  123 Elm  Pluckemin, NJ 07978  RECIPIENT’S ID No: **881-XX-XXXX** | Your Broker:  Serge Bronski  888-555-5555  sbronski@AcmeBrokerage.com | |

|  |  |  |
| --- | --- | --- |
| **Interest Income – 1099-INT – Reported to IRS** | | |
| 1 | Interest Income (not included in line 3) | 123.00 |
| 2 | Early withdrawal penalty | 0.00 |
| 3 | Interest on US Savings Bonds & Treasury obligations | 2,455.00 |
| 4 | Federal Income tax withheld | 245.00 |
| 5 | Investment expenses | 0.00 |
| 6 | Foreign tax paid | 0.00 |
| 7 | Foreign country or US possession |  |
| 8 | Tax-exempt interest (includes line 9) | 337.85 |
| 9 | Specified private activity bond interest (AMT) | 0.00 |
| 10 | Tax-exempt bond CUSIP numbers (see instructions) |  |
| 11 | State |  |
| 12 | State ID numbers |  |
| 13 | State tax withheld | 0.00 |
|  | FATCA filing requirement | NO |

**Interest Detail (only summary 1099-INT reported to IRS)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | **1** Interest Income | **2** Early withdrawal penalty | **3** Interest on US Savings Bonds | **4** Federal withholding | **8** Tax-exempt interest |
| **MooFoo Mutual Fund** | | |  |  |  |
| 12-30-2016 | 123.00 | 0.00 | 2,455.00 | 245.00 | 0.00 |
|  |  |  |  |  |  |
| **New Jersey Muni Bond** | | |  |  |  |
| 12-30-2016 | 0.00 | 0.00 | 0.00 | 0.00 | 148.63 |
|  |  |  |  |  |  |
| **Georgia Muni Bond** | | |  |  |  |
| 12-30-2016 | 0.00 | 0.00 | 0.00 | 0.00 | 189.22 |
| **Totals:** | **123.00** | **0.00** | **2,455.00** | **245.00** | **337.85** |

Money from U.S. Savings Bonds was used for house repairs.

**Reference**: 4012 D-7 to D-9

**Reference**: NJ Special Handling p?

Step 6a Interest Income Screen

**Hint:** Ignore TS Complaint that “Amount Withheld is greater than 40% of Interest Income

**Federal Refund: 3,245 NJ Refund Amount: 1,755**

Step 6b Tax-Exempt / Schedule B Other Interest Screen

**Federal Refund: 3,245 NJ Refund Amount: 1,751**

Step 7 Brokerage Statement Page 2 of 3 – 1099-DIV

|  |  |  |  |
| --- | --- | --- | --- |
| **Acme Brokerage** | End of Year Tax Information Statement  Account 203040506 | Statement Date: 01-30-2017  Page 2 of 3 | 2016 |
| 123 Main Street  P.O. Box 07978-123  Pluckemin, NJ 07978  PAYER’S Federal ID No: **92-2XXXXXX** | Karl R. Kent  123 Elm  Pluckemin, NJ 07978  RECIPIENT’S ID No: **881-XX-XXXX** | Your Broker:  Serge Bronski  888-555-5555  sbronski@AcmeBrokerage.com | |

|  |  |  |
| --- | --- | --- |
| **Dividends and Distributions – 1099-DIV – Reported to IRS** | | |
| 1a | Total ordinary dividends (includes line 1b) | 231.86 |
| 1b | Qualified dividends | 125.25 |
| 2a | Total capital gain distributions (includes lines 2b, 2c, 2d) | 68.75 |
| 2b | Unrecaptured Section 1250 gain | 0.00 |
| 2c | Section 1202 gain | 0.00 |
| 2d | Collectibles (28%) gain | 0.00 |
| 3 | Nondividend distributions | 2.44 |
| 4 | Federal Income tax withheld | 0.00 |
| 5 | Investment expenses | 0.00 |
| 6 | Foreign tax paid | 3.75 |
| 7 | Foreign country or US passion |  |
| 8 | Cash liquidation distributions | 0.00 |
| 9 | Noncash liquidation distributions | 0.00 |
| 10 | Exempt-interest dividends (includes line 11) | 200.00 |
| 11 | Specified private activity bond interest dividends (AMT) | 0.00 |
| 12 | State |  |
| 13 | State ID number |  |
| 14 | State tax withheld | 0.00 |
|  | FATCA filing requirement | NO |

**Dividend Detail (only summary 1099-DIV reported to IRS)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | **1a** Ordinary dividends | **1b** Qualified dividends | **2a** Capital gains | **3** Nondiv. Dists. | **4** Federal w/h | **6** Foreign tax paid | **10** Exempt Interest | **11** Sp. PAB |
| **MooFoo Mutual Fund** | | |  |  |  |  |  |  |
| 12-30-2016 | 231.86 | 125.25 | 68.75 | 2.44 | 0.00 | 3.75 | 0.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |
| **Select US General Fund** | | |  |  |  |  |  |  |
| 12-30-2016 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 100.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |
| **Select NJ Qualified Fund** | | |  |  |  |  |  |  |
| 12-30-2016 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 100.00 | 0.00 |
| **Totals:** | **231.86** | **125.25** | **68.75** | **2.44** | **0.00** | **3.75** | **200.00** | **0.00** |

|  |  |  |
| --- | --- | --- |
| **Exempt-interest dividends by Area** | **Select US General Fund** | **Select NJ Qualified Fund** |
| US Federal, Possessions, Territories obligations | 30.0% | 20.0% |
| New Jersey State and Local obligations | 10.0% | 65.0% |
| All Other State and Local obligations | 60.0% | 15.0% |

**Reference**: 4012 D-7, D9, D-11

Step 7a Enter your Dividend Income Screen

**Federal Refund: 3,239 NJ Refund Amount: 1,746**

Step 7b Tax-Exempt / Schedule B Other Interest Screen

**Federal Refund: 3,239 NJ Refund Amount: 1,745**

Step 8 Prior Year State Income Tax Refund – 1099-G, Line 2

Looking at their prior year state return, you see that they had a $437 state income tax refund. As a result, you check their prior year federal return and see that they itemized deductions (and used state income tax (5a) instead of state sales tax (5b)). The amount shown on Sch A, line 5a is $3,287

The Kents remember receiving a refund check, but don’t remember if the amount shown on their prior year NJ return is correct, so you use the NJ online refund query tool to check on their prior year state income tax refund amount. It shows an amount consistent with the refund amount on their prior year NJ return.

Their prior year federal return shows that a) they filed MFJ, and b) their total itemized deductions were $13,884.

Using various online calculators, you determine that their state sales tax (5b) amount would have been $3,077.

From their prior year 1040: line 41: $53,208; line 42: 20,000.

**Reference**: 4012 D-12

**Reference**: NJ Special Handling p?

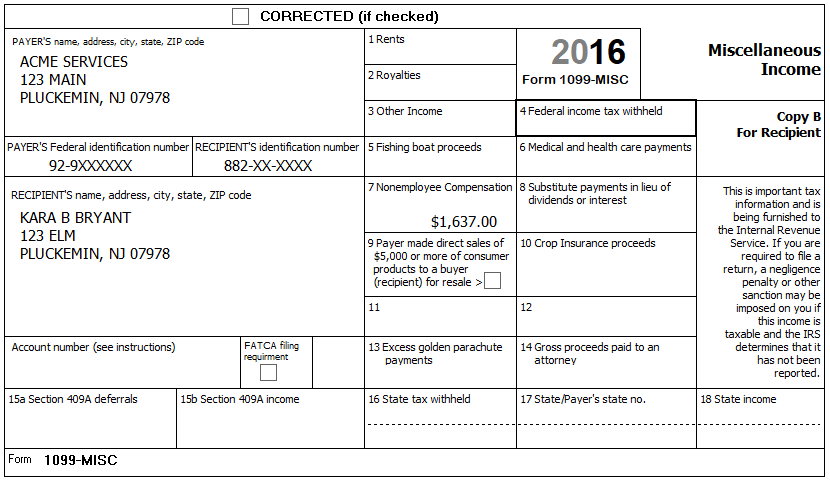
**Tool**: NJ Form 1099-G Inquiry (Refund)

**Tool**: NJ Sales Tax (Preparer Tools)

**Tool**: State Tax Refund (Preparer Tools)

**Federal Refund: 3,234 NJ Refund Amount: 1,745**

Step 9a 1099-MISC and Self Employment



Kara has a small business, which she operates out of her home, typing medical transcripts. She received income reported on a 1099-MISC

There is no separate business name or EIN (she is using her SSN as the EIN).

She meets all scope requirements (see Pub. 4012). She has “materially participated” in the operation of the business for several years.

**Reference**: 4012 D-13 to D-21, F-9 to F-10 (love the picture on F-12)

**Tool**: NAICS Search Tool (link on Preparer page)

**Tool**: 1040 Instructions, Sch C Business Codes table

**Hint:** Enter the 1099-MISC. When complete, TSO will ask where to add the income – choose “Create a New Schedule C Income from Business”. This will take you to the Schedule C Basic Information screen (and update refund amounts).

**Hint:** An alternative to the built-in Business Code lookup list is to use the online NAICS Search Tool to search for the Business Code (enter keyword “typing” or “transcription” in this case)

**Federal Refund: 2,853 NJ Refund Amount: 1,716**

Step 9b Self Employment – Other Income and Expenses

In addition to the 1099-MISC above, she also received $1,082 cash during the year from various other doctors for this service.

Kara used her second car (a 1966 Ford Mustang) for picking up and delivering the typing jobs. She maintained a written record of mileage, reporting 35 business miles per month and 10,000 total other miles. She bought the car and started using it for business on January 2, 2012. Kara has another car available for personal use and this vehicle was available for personal use during off-duty hours. Kara kept written records of her use of the vehicle.

Her expenses included $45.00 for paper and $67.52 for a printer cartridge.

**Reference**: 4012 D-13 to D-21, F-9 to F-10

**Hint:** Use “Other Expenses” instead of “General Expenses” to itemize individual expenses.

**Hint:** See 4012 for suggestion of what to use for “Description of Vehicle”

**Federal Refund: 2,678 NJ Refund Amount: 1,703**

Step 10 Capital Loss Carryover

Looking at last year’s 1040, line 13, you see -$3,000 (a loss), so you find the Schedule D Worksheet, and you see that the Kents had no Short-term capital loss carryover, but they did have a Long-term capital loss carryover of $2,534 to this year.

**Reference**: 4012 D-22

**Federal Refund: 2,923 NJ Refund Amount: 1,703**

**Q:** Why did the Federal Refund change, but not the NJ Refund?

Step 11a Brokerage Statement Page 3 of 3 (Part 1) – 1099-B

|  |  |  |  |
| --- | --- | --- | --- |
| **Acme Brokerage** | End of Year Tax Information Statement  Account 203040506 | Statement Date: 01-30-2017  Page 3 of 3 (Part 1) | 2016 |
| 123 Main Street  P.O. Box 07978-123  Pluckemin, NJ 07978  PAYER’S Federal ID No: **92-2XXXXXX** | Karl R. Kent  123 Elm  Pluckemin, NJ 07978  RECIPIENT’S ID No: **881-XX-XXXX** | Your Broker:  Serge Bronski  888-555-5555  sbronski@AcmeBrokerage.com | |

**FORM 1099-B 2016 Proceeds from Broker and Barter Exchange Transactions**

**Long-term transactions for which basis is not reported to the IRS**

Report on form 8949 with Box E checked and/or Schedule D, Part II

**1a** Description, **2** Long-term, **3** Basis not reported to IRS, **6** Net Proceeds

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Quantity | **1b** Date Acquired | **1c** Date Sold | **1d** Proceeds | **1e** Cost or other Basis | **1f** Code | **1g** Adj | Gain / Loss(-) | **4** Federal Tax Withheld |
| **Rio Motors Inc (RIMI)** | | |  |  |  |  |  |  |
| 50.000 | 09-01-2002 | 05-10-2016 | 3,462.00 | 3.181.00 |  |  | 281.00 | 0.00 |
| 100.000 | 09-01-2002 | 10-20-2016 | 7,226.00 | 6,362.00 |  |  | 864.00 | 0.00 |
| 150.000 |  |  | 10,688.00 | 9,543.00 |  | 0.00 | 1.145.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |
| **Rust Corporation (RUST)** | | |  |  |  |  |  |  |
| 100.000 | 11-01-1999 | 09-23-2016 | 1,700.00 | 3,200.00 | W | 100.00 | -1,500.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |
| **Rider Corporation (RIDE)** | | |  |  |  |  |  |  |
| 65.000 | \*\* | 10-20-2016 | 8.663.00 | \*\* |  |  | \*\* | 0.00 |
| **Totals** |  |  | **21,051.00** |  |  | **100.00** |  | **0.00** |
| \*\* Information not available | | |  |  |  |  |  |  |

Acme Brokerage does not have a record for the purchase of Rider stock. Karl inherited the 65 shares from his uncle who paid $6,500 for the shares on 10/15/2005. The stock was worth $7,222 on 11/29/2009, the day his uncle died.

**Reference**: 4012 D-22 to D-27

**Hint:** Use “#Shares Symbol” instead of name of brokerage for Description of property box (e.g. 100 RIMI)

**Hint:** The wash sale amount should be entered as a positive number

**Hint:** Use Alternate Option “Inherited – Long Term” for Date Acquired for inherited stock

**Hint:** You should end up with 4 Capital Gain/Loss entries in the list

**Federal Refund: 2,808 NJ Refund Amount: 1,682**

Step 11b Brokerage Statement Page 3 of 3 (Part 2) – 1099-B

|  |  |  |  |
| --- | --- | --- | --- |
| **Acme Brokerage** | End of Year Tax Information Statement  Account 203040506 | Statement Date: 01-30-2017  Page 3 of 3 (Part 2) | 2016 |
| 123 Main Street  P.O. Box 07978-123  Pluckemin, NJ 07978  PAYER’S Federal ID No: **92-2XXXXXX** | Karl R. Kent  123 Elm  Pluckemin, NJ 07978  RECIPIENT’S ID No: **881-XX-XXXX** | Your Broker:  Serge Bronski  888-555-5555  sbronski@AcmeBrokerage.com | |

**FORM 1099-B 2016 Proceeds from Broker and Barter Exchange Transactions**

Report on form 8949 with Box A checked and/or Schedule D, Part I

**1a** Description, **2** Short-term, **3** Basis reported to IRS, **6** Net Proceeds

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Quantity | **1b** Date Acquired | **1c** Date Sold | **1d** Proceeds | **1e** Cost or other Basis | **1f** Code | **1g** Adj | Gain / Loss(-) | **4** Federal Tax Withheld |
| **Qwik Qwok (QQSV)** | | |  |  |  |  |  |  |
| 10.000 | 07-02-2015 | 01-15-2016 | 3,500.00 | 3,400.00 |  |  | 100.00 | 0.00 |
| 10.000 | 07-02-2015 | 03-15-2016 | 3,500.00 | 3,400.00 |  |  | 100.00 | 0.00 |
| 20.000 |  |  | 7,000.00 | 6,800.00 |  | 0.00 | 200.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |
| **Slik Shok (SSVV)** | | |  |  |  |  |  |  |
| 30.000 | 07-02-2015 | 02-15-2016 | 3,300.00 | 3,400.00 |  |  | -100.00 | 0.00 |
| 30.000 | 07-02-2015 | 04-15-2016 | 3,400.00 | 3,400.00 |  |  | 0.00 | 0.00 |
| 60.000 |  |  | 6,700.00 | 6,800.00 |  | 0.00 | -100.00 | 0.00 |
| **Totals** |  |  | **13,700.00** | **13,600.00** |  | **0.00** | **100.00** | **0.00** |

**Reference**: 4012 D-22 to D-27

**Reference**: Special Topic: Consolidating Capital Gains (ST14-12)

**Hint:** Use the name of the Brokerage for “Description of Property”

**Hint:** Use Alternate Option “Various – Short Term” for Date Acquired for short-term consolidated transactions

**Hint:** Use 12/31 or latest transaction date for Date Sold for consolidated transactions

**Hint:** Under Adjustments – be sure to check M – Reporting Multiple Transactions on a Single Row”

**Federal Refund: 2,798 NJ Refund Amount: 1,681**

Step 11c Brokerage Statement Page 3 of 3 (Part 3) – 1099-B

|  |  |  |  |
| --- | --- | --- | --- |
| **Acme Brokerage** | End of Year Tax Information Statement  Account 203040506 | Statement Date: 01-30-2017  Page 3 of 3 (Part 3) | 2016 |
| 123 Main Street  P.O. Box 07978-123  Pluckemin, NJ 07978  PAYER’S Federal ID No: **92-2XXXXXX** | Karl R. Kent  123 Elm  Pluckemin, NJ 07978  RECIPIENT’S ID No: **881-XX-XXXX** | Your Broker:  Serge Bronski  888-555-5555  sbronski@AcmeBrokerage.com | |

**FORM 1099-B 2016 Proceeds from Broker and Barter Exchange Transactions**

Report on form 8949 with Box D checked and/or Schedule D, Part II

**1a** Description, **2** Long-term, **3** Basis reported to IRS, **6** Net Proceeds

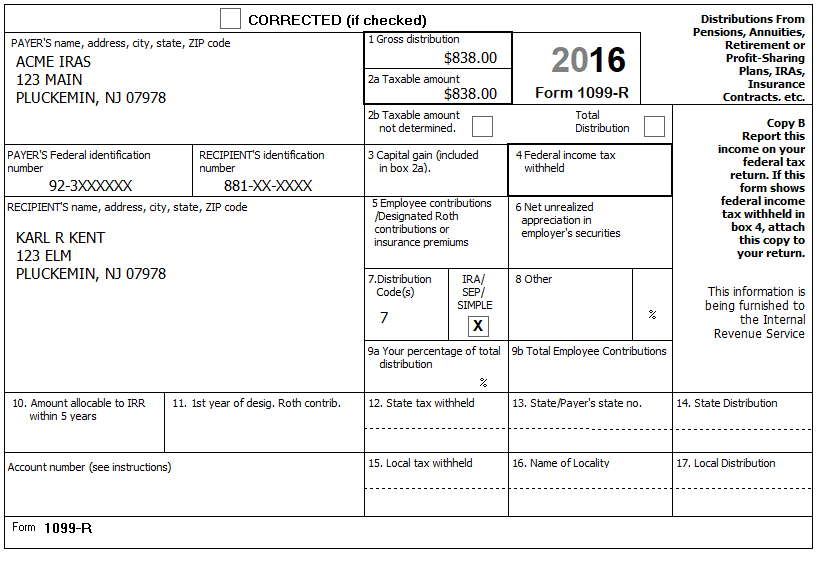
|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Quantity | **1b** Date Acquired | **1c** Date Sold | **1d** Proceeds | **1e** Cost or other Basis | **1f** Code | **1g** Adj | Gain / Loss(-) | **4** Federal Tax Withheld |
| **Qwik Qwok (QQSV)** | | |  |  |  |  |  |  |
| 10.000 | 07-02-2015 | 07-15-2016 | 3,500.00 | 3,400.00 |  |  | 100.00 | 0.00 |
| 10.000 | 07-02-2015 | 11-15-2016 | 3,500.00 | 3,400.00 |  |  | 100.00 | 0.00 |
| 20.000 |  |  | 7,000.00 | 6,800.00 |  | 0.00 | 200.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |
| **Slik Shok (SSVV)** | | |  |  |  |  |  |  |
| 30.000 | 07-02-2015 | 08-15-2016 | 3,357.00 | 3,400.00 |  |  | -43.00 | 0.00 |
| 30.000 | 07-02-2015 | 12-15-2016 | 3,443.00 | 3,400.00 |  |  | 43.00 | 0.00 |
| 60.000 |  |  | 6,800.00 | 6,800.00 |  | 0.00 | 0.00 | 0.00 |
| **Totals** |  |  | **13,800.00** | **13,600.00** |  | **0.00** | **200.00** | **0.00** |

**Reference**: 4012 D-22 to D-27

**Reference**: Special Topic: Consolidating Capital Gains (ST14-12)

**Federal Refund: 2,778 NJ Refund Amount: 1,677**

Step 12 1099-R

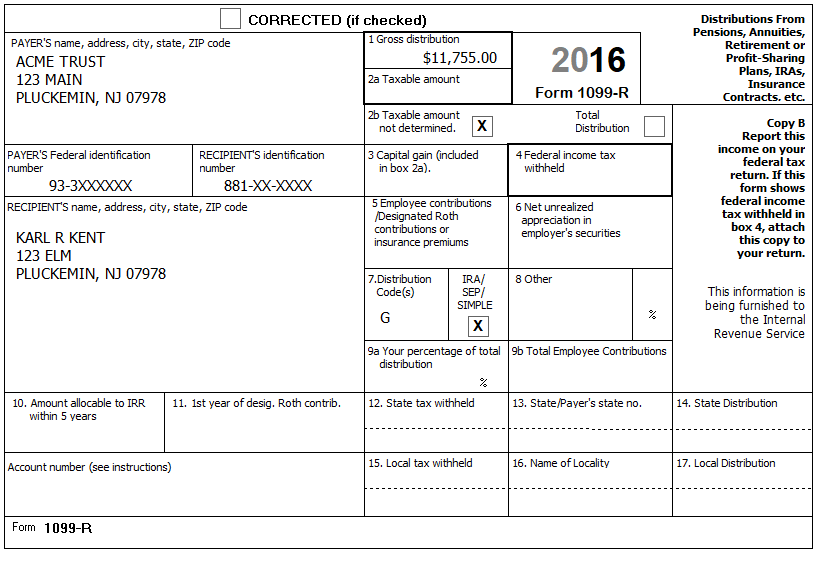


Karl met all his RMD requirement for his IRAs from the ACME IRAs account. He has no record of his original contributions.

**Reference**: 4012 D-33 to D-43

**Federal Refund: 2,693 NJ Refund Amount: 1,677**

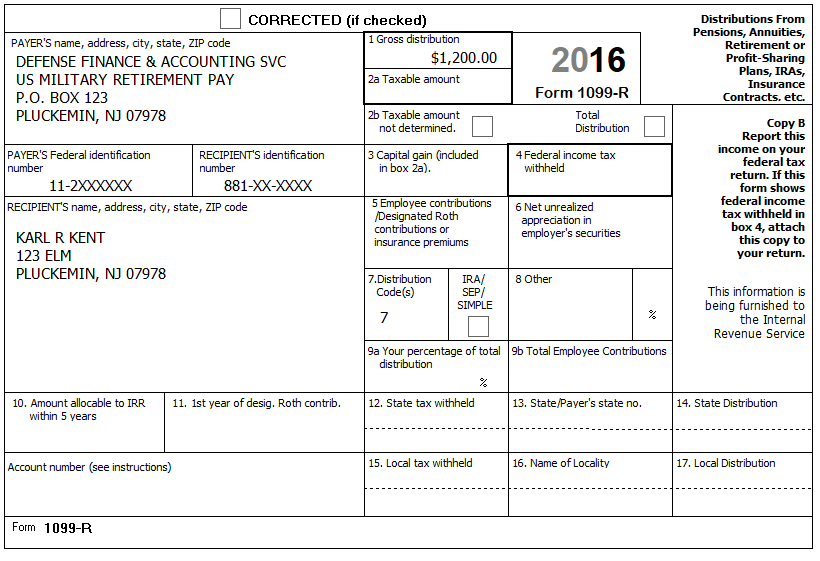
Step 13 1099-R



**Reference**: 4012 D-33 to D-43

**Federal Refund: 2,693 NJ Refund Amount: 1,677**

Step 14 1099-R



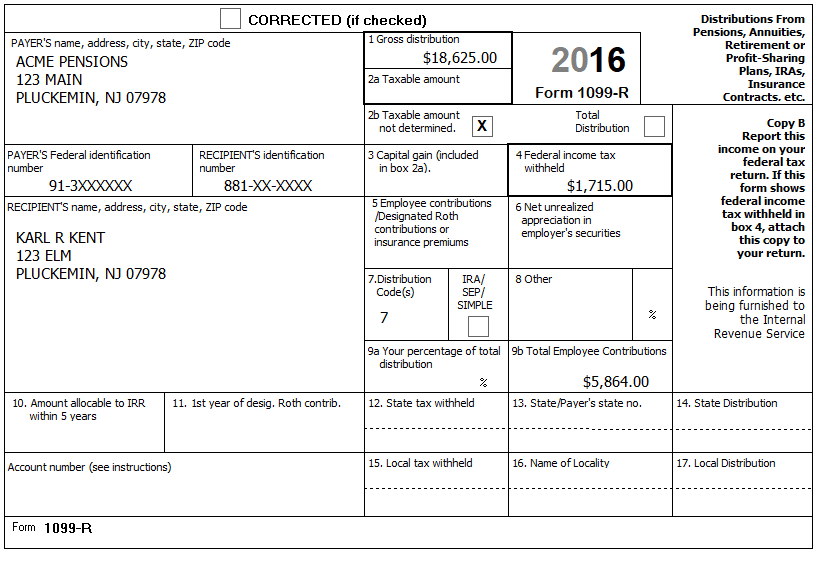
**Reference**: 4012 D-33 to D-43

**Reference**: NJ Special Handling p?

**NJ:** Add -1200 to the Adjustments to: Line 19a row of the NJ Checklist

**Federal Refund: 2,465 NJ Refund Amount: 1,677**

Step 15 1099-R



Karl retired two years ago, and started drawing his retirement pay from ACME Pensions on January 1, 2015. He recovered $335 of his cost during the first year. Karl did not select a joint and survivor annuity.

**Reference**: 4012 D-33 to D-43

**Reference**: NJ Special Handling p?

**Tool**: TSO built-in Simplified Method calculator (Bogart tool (below) preferred)

**Tool**: Bogart Annuity Calculator (link on Preparer page)

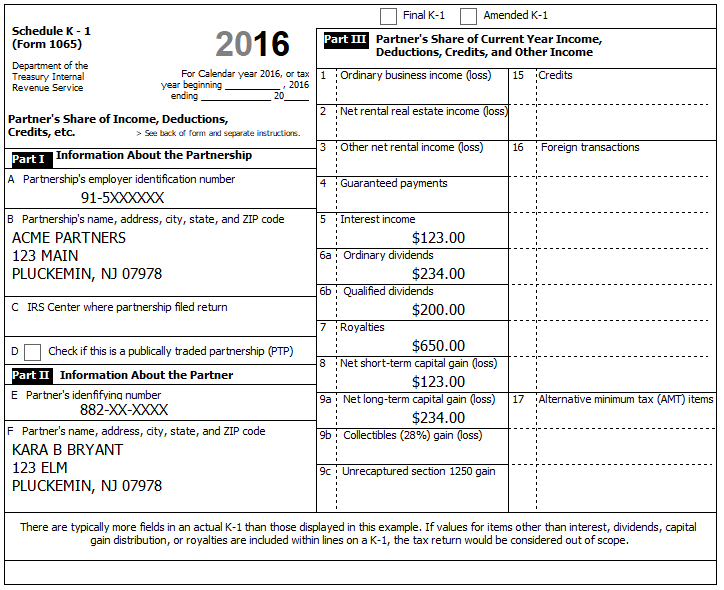
**NJ:** Record excluded amount on NJ Checklist – Adjustments to Line 19b

**Federal Refund: 1,420 NJ Refund Amount: 1,672**

**Q:** Why did the NJ Refund Amount change for this 1099-R, but not for the previous 1099-Rs?

**Q:** What, if anything, would change if this pension were for Kara instead of Karl?

Step 16 K-1



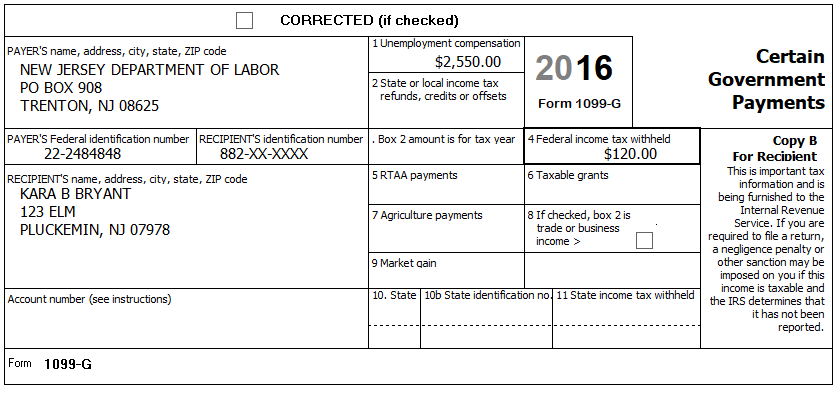
In addition to the above, Box 18a shows $321.00 of Tax Exempt Interest Income. This amount is all from Tax-exempt Federal obligations

You determine that a) This is a Passive Entity, b) All Investment is At-Risk, c) The entire investment has NOT been disposed, and d) This is not a PTP, e) there is no Prior Year Unallowed Loss

**Reference**: 4012 D-47 to D-49

**Federal Refund: 1,247 NJ Refund Amount: 1,650**

Step 17 1099-G (Unemployment)

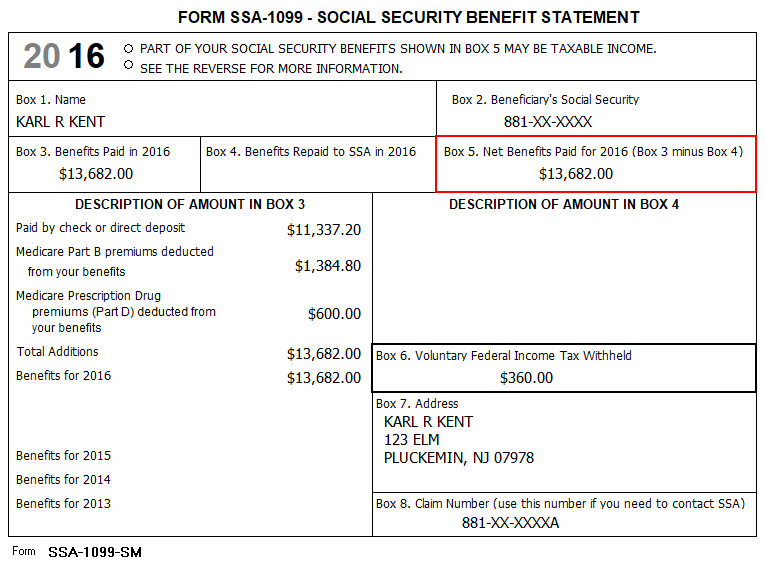


Kara said she received some unemployment, but didn’t receive any paperwork from the state. (NJ no longer sends out paper 1099-G forms for unemployment.) Luckily, Kara has her User ID and Password so you can help get a copy of her 1099-G online.

**Tool**: NJ Form 1099G Inquiry (Unemployment) (link on Preparer page)

**Federal Refund: 985 NJ Refund Amount: 1,650**

Step 18 SSA-1099

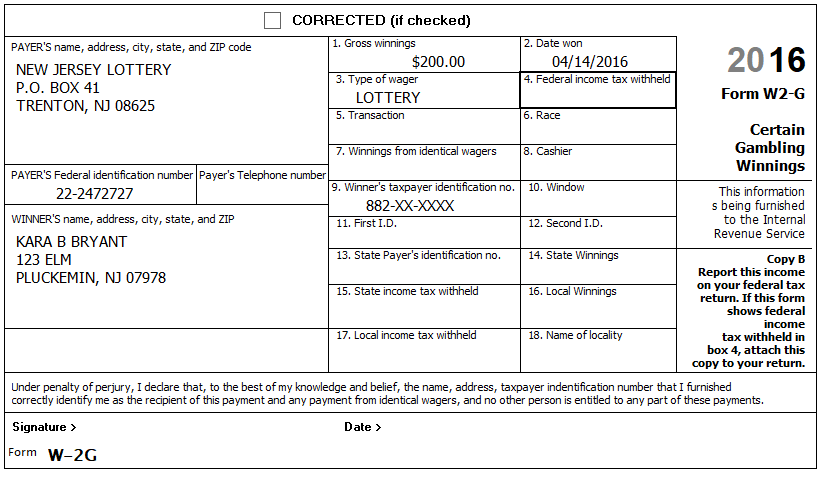


**Reference**: 4012 D-45

**Q:** Social Security is not taxed in NJ, so why did NJ Refund Amount change?

**Federal Refund: (403) NJ Refund Amount: 1,667**

Step 19a W2-G



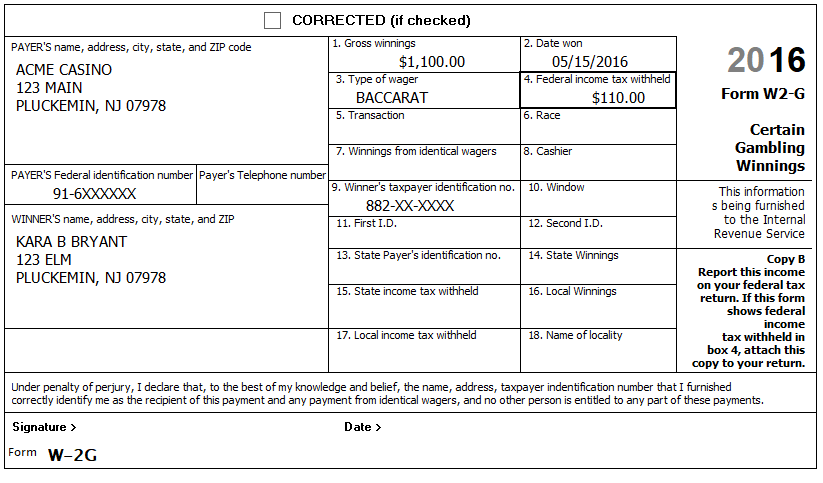
**Reference**: 4012 D-53

**Hint:** Gambling Losses will be entered in a later Step.

**NJ:** Record on NJ Checklist (NJ Line 23 – Gambling Winnings)

**Federal Refund: (433) NJ Refund Amount: 1,667**

Step 19b W2-G



**Reference**: 4012 D-53

**Hint:** Gambling Losses will be entered in a later Step.

**NJ:** Record on NJ Checklist (NJ Line 23 – Gambling Winnings)

**Federal Refund: (488) NJ Refund Amount: 1,667**

Step 20 1099-C



Kara negotiated a deal with respect to an overdue credit card to reduce her amount owed. The card was only used for personal expenses. She was solvent at the time and has never been involved in any bankruptcy proceedings.

**Reference**: 4012 D-63 to D-65

**Reference**: NJ Special Handling p?

**Federal Refund: (578) NJ Refund Amount: 1,667**

Step 21 Notes – Educator Expenses

Kara bought her classroom supplies for her sixth graders and has receipts totaling $240.00. Kara worked over 1,000 hours and her costs were not reimbursed.

**Reference**: 4012 E-2

**Federal Refund: (548) NJ Refund Amount: 1,667**

Step 22 Notes – Alimony Paid

Karl paid $3,500 in alimony to a previous wife. The previous wife’s social security number is 886-XX-XXXX.

**Reference**: 4012 E-6

**Federal Refund: (23) NJ Refund Amount: 1,728**

Step 23 Notes – IRA Contributions

Kara contributed $3,000 to her traditional IRA account and another $3,000 to her Roth IRA account.

**Reference**: 4012 E-7, G-9 to G-11

**Hint:** Taxpayer has a retirement plan

**Hint:** Spouse DOES NOT have a retirement plan

**Federal Refund: 427 NJ Refund Amount: 1,728**

Step 24 Notes – Student Loan interest payments

Kara’s brother, Kaleb, paid $278 interest on a student loan Kara incurred to obtain her teaching degree.

**Reference**: 4012 E-8

**Federal Refund: 472 NJ Refund Amount: 1,728**

Step 25 Notes - Deductions

**Check:** Before beginning this step, Use Compare Deductions to check that Itemized Deductions = 2,672

**Even better Check:** Generate Printed Return and look at Sch A –   
 Line 1: 1,985. Line 2: 79,998, Line 3: 6,000, Line 4: 0  
 Line 5a: 2,672, Line 9: 2,672  
 Line 29: 2,672

**Hint:** Some items in the following sub-Steps may not be deductible or may have already been entered – be alert…

**Annoyance:** The Compare Deductions amount does not seem to update until you click Continue enough times to take you from Deductions to Other Taxes, then go back to Deductions. Keep this in mind if you want to Check the Itemized Deductions value after each sub-step.

Step 25a Notes – Deductions – Medical and Dental

Medicare $1,985

Section 125 Medical (from W-2) $1,200

Insurance policy from HealthCare.gov $3,600

Doctor bills $1,653

Prescription drugs $965

Hospital bills $3,200

Prescription eyeglasses for David $210

Wheelchair for Carmen $290

Medical mileage 103 miles per month (1,236 miles total)

Funeral expenses (Kara’s mother) $5,600

Long Term Care insurance (Kara) (partially subsidized by employer) $4,100

**Reference**: 4012 F-3 to F-8

**Hint:** The appropriate deduction amount for Marketplace (HealthCare.gov) policies can only be calculated after form 8962 has been completed – we will do this later.

**Hint:** Each person on the return can have separate LTC expenses. Be sure to select the applicable person in the LTC sub-screen.

**Hint:** Double check that you have the $1,200 Section 125 Medical on your NJ Checklist, but do not enter anything in the TaxSlayer NJ Section yet.

**Check:** After this step, Itemized Deductions = $9,110 (use Compare Deductions)

**Federal Refund: 472 NJ Refund Amount: 1,911**

Q: The NJ Refund changed by $183 – why?

Step 25b Notes – Deductions – Taxes You Paid

Sales Tax on a new car $2,100

TY2015 NJ Estimate paid on 01-15-2016 $50

Real estate tax (Principal residence) $7,135

Real estate tax (Empty lot in Georgia) $245

**Reference**: 4012 F-3 to F-8

**BP:** You must click “Begin Sales Tax Worksheet” and enter State and Number of days (but not percentages) even if you do not have any extra sales tax on cars, etc.

**NJ:** Record Real estate tax on NJ Checklist (Property Tax)

**Check:** After this step, Itemized Deductions = 16,937 (Use Summary/Print line 40)

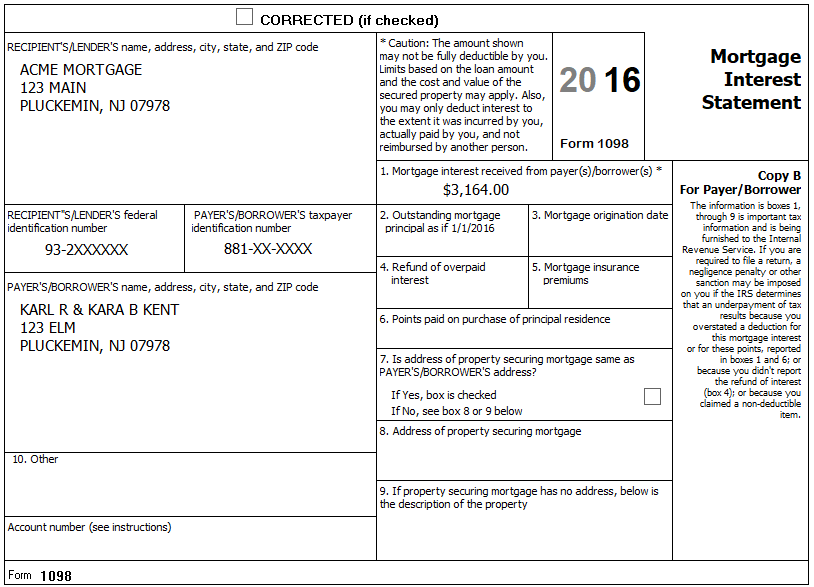
**Federal Refund: 937 NJ Refund Amount: 1,911**

**Q:** Itemized Deductions went up by 7,827 – why?

**Q:** The TSO “Taxes You Paid” screen shows a “Calculated Modified Adjusted Gross Income (MAGI)” of $83,244. What is this used for and how is it calculated?

**Q:** If Kara had received an inheritance of $10,000, their Itemized Deductions would go up (by $67) to $17,004 – why? Where would you enter the inheritance amount?

Step 25c Notes – Deductions – Mortgage Interest



**Reference**: 4012 F-3 to F-8

**Check:** After this step, Itemized Deductions = 20,101

**Federal Refund: 1,410 NJ Refund Amount: 1,911**

Step 25d Notes – Deductions – Gifts to Charity

Church cash donations with canceled checks $1,650

Cash contributions to: National Public Radio, American Cancer Society,   
Shriners Children’s Hospital with canceled checks and receipts $225

Contributions to Millsap Elementary School with canceled checks and receipts $250

Salvation Army (FMV of clothes and TV in good used condition;   
Kents have receipts for these contributions.) $350

Donation to a political party $50

**Reference**: 4012 F-3 to F-8

**Hint:** If you use the Override option for Cash, then all you need to enter is the total (no names, dates, etc.) – Just be sure to document in the TP’s paper file how you arrived at the total.

**Check:** After this step, Itemized Deductions = 22,576

**Federal Refund: 1,785 NJ Refund Amount: 1,911**

Step 25e Notes – Deductions – Miscellaneous

Gambling losses (Lottery) $612

Gambling losses (Slots) $832

Speeding tickets $375

**Reference**: 4012 F-3 to F-8

BP: Be sure to not enter a number larger than actual gambling winnings – TSO does not check losses against winnings and will happily use whatever number you give it.

**NJ:** Record losses on NJ Checklist (NJ Line 23 – Gambling Winnings)

**Check:** After this step, Itemized Deductions = 23,876

**Federal Refund: 1,980 NJ Refund Amount: 1,911**

Step 26 Notes – Residential Energy Credit

The Kents insulated the crawl space of their home for $175.00 and replaced all their windows with new windows meeting the IECC criteria (energy efficiency) at a cost of $7,450.00 excluding onsite preparation, assembly, or original installation of components.

Looking at last year’s return, you see that the Kents had $305 of Nonbusiness energy property credit (Form 5695, line 30). They had no energy credits for years before last year.

**Reference**: 4012 EXT-7

**Hint:** Instead of typing the house address, you can use the red “Use my main address” to fill in the boxes

**Federal Refund: 2,175 NJ Refund Amount: 1,911**

Step 27 Notes – Child and Dependent Care Expenses

Karl and Kara paid the Acme Day Care $1,100 to watch Dave while they worked. The address is 123 Main, Pluckemin, NJ 07978. The EIN for the center is 93-9XXXXXX. Acme Day Care is not a Tax Exempt organization.

**Reference**: 4012 G-5 to G-8

**Federal Refund: 2,395 NJ Refund Amount: 1,911**

Step 28 Federal Payments and Estimates

Karl and Kara applied $200 from last year’s federal tax toward this year’s federal taxes.

During the year, Karl and Kara made the following estimated tax payments:

|  |  |
| --- | --- |
| Date | Federal |
| 06-14-2016 | $100 |
| 09-15-2016 | $100 |

They would like vouchers for next year’s federal estimated payments ($120/quarter) generated as part of their printed return.

**Reference**: NJ Special Handling p?

**Federal Refund: 2,795 NJ Refund Amount: 1,911**

Step 29 State Payments and Estimates

Karl and Kara applied $100 from last year’s state tax refund toward this year’s state taxes.

During the year, Karl and Kara made the following estimated tax payments:

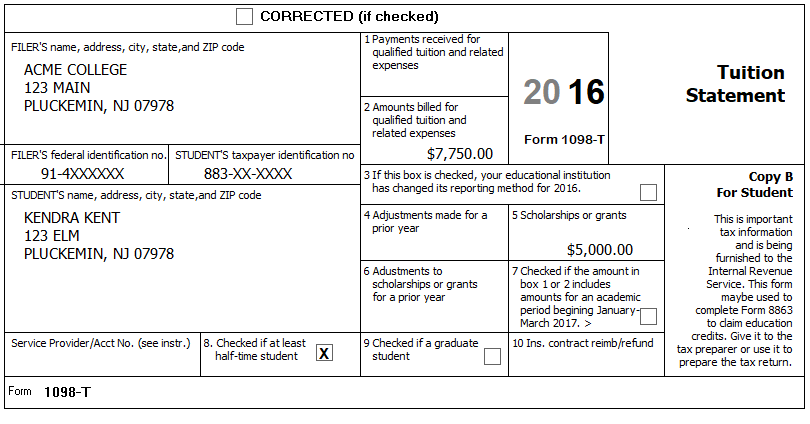
|  |  |
| --- | --- |
| Date | NJ |
| 06-14-2016 | $250 |
| 09-15-2016 | $240 |

**Reference**: NJ Special Handling p?

**Federal Refund: 2,817 NJ Refund Amount: 2,501**

**Q**: Why did Federal Refund go up?

Step 30 1098-T – Kendra



Kara and Karl paid $2,750 for Kendra’s college tuition plus an additional $3,500 for room and board. They spent $250.00 on textbooks and supplies (which were an enrollment requirement and paid to the college). They also spent another $400.00 on course related textbooks and supplies (which were not an enrollment requirement) plus $850.00 for a new computer (which was not a course requirement).

Kendra did not receive a 1098-T for 2015. This is Kendra’s third year in her (undergraduate) college degree program. Kendra has no felony convictions of any kind. Kendra has not claimed any education credit on 4 prior tax returns.

**Reference**: 4012 Tab J

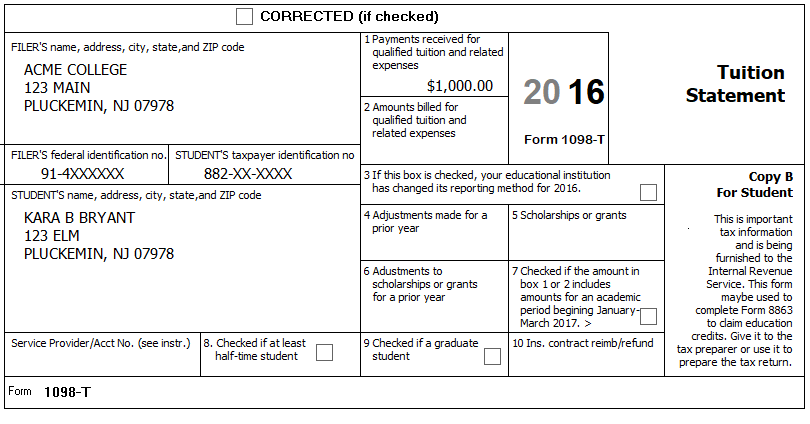
**Hint:** Be sure to pick correct Eligible Student

**Check:** Values for each option:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Qualified Expenses** | **Federal Refund** | **NJ Refund** |
| **Tuition and Fees Deduction** | 2,750 | 3,267 | 2,501 |
| **Lifetime Learning** | 3,000 | 3,417 | 2,501 |
| **American Opportunity** | 3,400 | 5,167 | 2,501 |

**Federal Refund: 5,167 NJ Refund Amount: 2,501**

Step 31 1098-T



Kara had to take several courses that were required by her employer to advance her job skills. She spent $180 on course related books (which were not an enrollment requirement). Kara was not enrolled at least half-time.

Because the courses were not related to Kara’s self-employment, they cannot be a Sch. C business expense and we do not need to consider that option.

**Reference**: 4012 Tab J

**Hint:** Be sure to pick correct Eligible Student

**Check:** Values for each option:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Qualified Expenses** | **Federal Refund** | **NJ Refund** |
| **Tuition and Fees Deduction** | 1,000 | 5,332 | 2,501 |
| **Lifetime Learning** | 1,000 | 5,367 | 2,501 |
| **American Opportunity** | n/a | n/a | n/a |

**Federal Refund: 5,367 NJ Refund Amount: 2,501**

**Q:** Their tax bracket is 15%. Explain why the Tuition and Fees Deduction raises their Federal Refund by $165 instead of $150 (1,000 \* 15%) – where did the extra amount come from?

Step 32 IRS Identification PIN

Kendra received Notice CP01A from the IRS with an Identity Protection PIN - 142536

**Reference**: 4012 P-2

**Federal Refund: 5,367 NJ Refund Amount: 2,501**

Step 33 Credit for the Elderly or the Disabled

TaxSlayer does not automatically check eligibility for the Credit for the Elderly or the Disabled; the preparer must use the chart on page G-14 of Pub. 4012 to manually determine potential eligibility. If potentially eligible, then the preparer must provide the information necessary to calculate official eligibility and the amount of the credit, if any.

**Reference:** 4012 G-14 to G-16

**Federal Refund: 5,367 NJ Refund Amount: 2,501**

**Q:** Is TP eligible for this Credit? If not, why not?

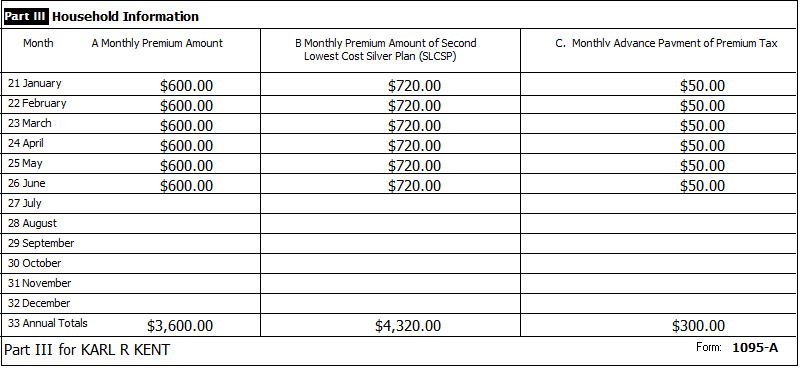
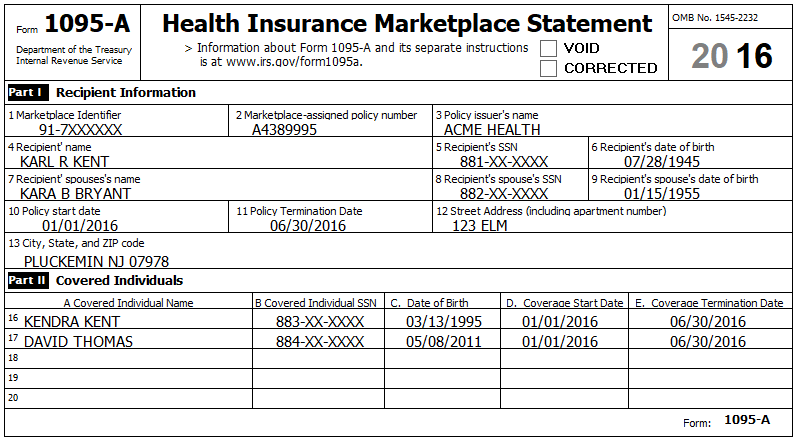
Step 34 ACA Health Insurance

Karl and Carmen had Medicare all year.

Kara had no health insurance from January through March while she was unemployed. She had health insurance through her employer from April to December.

Kendra and Dave had insurance for January through June from a Marketplace policy. During July and August they had no health insurance. From September to December they were both covered through Kara’s employer.

None of the Kent’s dependents had a federal filing requirement.



**Reference**: 4012 H4 to H31

Step 34a ACA Health Insurance – Health Insurance Section

**Hint:** Your local ACA expert says that Kara did not qualify for any exemption during the period from January through March while she was unemployed.

**Federal Refund: 5,125 NJ Refund Amount: 2,501**

Step 34b ACA Health Insurance – Add Sch A amount

**Hint:** To calculate the correct amount for Sch. A, you need to look at a couple of lines on the 1040 after completing the Health Insurance section in TSO. Use the following procedure:

1. Calculate the “TY Net Premium” by subtracting the 1095-A, Column C total from the Column A total. (e.g. 3,600 – 300 = 3,300)
2. Calculate the “Sch A Deduction Amount”:
   1. If 1040, Line 46 (Excess advance premium tax credit repayment) has a value, add it to the “TY Net Premium”
   2. If 1040, Line 69 (Net premium tax credit) has a value, subtract it from the “TY Net Premium”. (e.g. 3,300 – 126 = 3,174)
3. Enter the “Sch A Deduction Amount” on the Medical Deductions screen in TSO.

**BP:** Be sure to document the calculation of the amount you end up entering into TSO for your Quality Reviewer and for the TP records.

**Federal Refund: 5,605 NJ Refund Amount: 2,556**

State Section (New Jersey)

You have collected information during several Federal Steps on you NJ Checklist – It is now time to enter that information into TSO

Step 35 NJ Checklist – Basic Information

Enter New Jersey State Return – Basic Information

**Annoyance**: You need to click Continue until you get back to the original State Return screen before TSO will recalculate Refunds

**Federal Refund: 5,605 NJ Refund Amount: 2,573**

Step 36 NJ Checklist – Income Subject to Tax

Enter New Jersey State Return – Income Subject to Tax

**Annoyance**: You need to click Continue until you get back to the original State Return screen before TSO will recalculate Refunds

**Federal Refund: 5,605 NJ Refund Amount: 2,579**

Step 37 NJ Checklist – Subtractions from Income

Enter New Jersey State Return – Subtractions from Income

**Annoyance**: You need to click Continue until you get back to the original State Return screen before TSO will recalculate Refunds

**Federal Refund: 5,605 NJ Refund Amount: 2,600**

Step 38 NJ Checklist – Credits

Enter New Jersey State Return – Credits

According to the postcard from the tax office: – Block=50001, Lot-00002, Qualifier is blank.

**Annoyance**: You need to click Continue until you get back to the original State Return screen before TSO will recalculate Refunds

**Federal Refund: 5,605 NJ Refund Amount: 2,716**

Step 39 NJ Checklist – Tax

Enter New Jersey State Return – Tax

Based on the Estimated Use Tax Chart in the NJ-1040 Instructions, the Kents decide to pay $84 in Use Tax on their return.

**Tool:** NJ Use Tax Worksheet

**Annoyance**: You need to click Continue until you get back to the original State Return screen before TSO will recalculate Refunds

**Federal Refund: 5,605 NJ Refund Amount: 2,632**

Step 40 NJ Checklist – Miscellaneous Forms

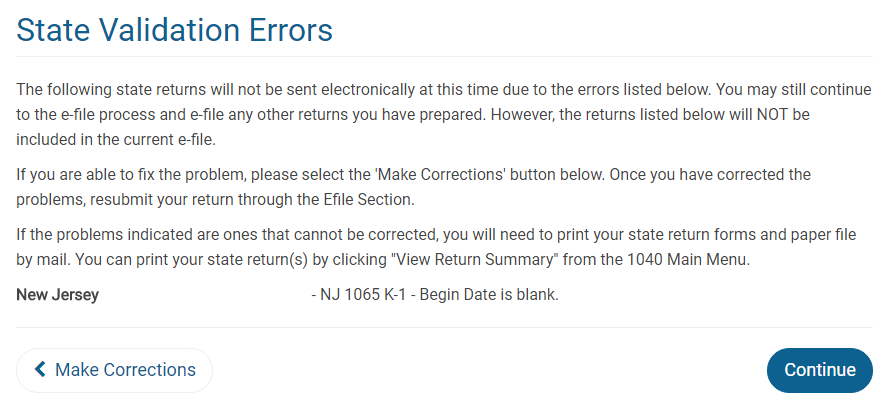
Enter New Jersey State Return – Miscellaneous Forms

The Kents ask you to create NJ-1040-ES (Estimated Payment) vouchers for $20 per quarter.

**Annoyance**: You need to click Continue until you get back to the original State Return screen before TSO will recalculate Refunds

**Federal Refund: 5,605 NJ Refund Amount: 2,632**

e-File

You will get a error message (see below) – ignore this and click Continue  


Step 41 E-File – Other Stuff

Select e-File, but must go through some other things first…

**Reference**: 4012 K-1 to K-5

Step 41a Other Stuff – Due Diligence Checklist

Answer questions as you wish… Then click Continue

Step 41b Other Stuff – Form 8867 - Due Diligence Checklist

Just click Continue

Step 41c Other Stuff – Miscellaneous Statement

Just click Continue

Step 42a E-File – Return Type

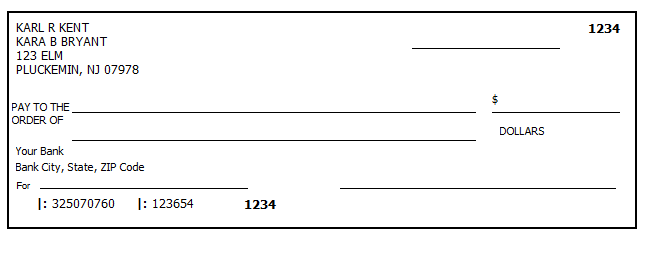
The Kents have a Federal refund which they want to Direct Deposit (per their Intake Sheet)

**Hint:** Federal Return Type = E-file: Direct Deposit

Step 42b E-File – Tax Preparation and E-File Information

The Kent’s email=KarlAndKara@mail.com

Step 42c E-File – Taxpayer Bank Account Information



Step 42d E-File – Third Party Designee Info

**Hint:** Do NOT fill in anything here.

Step 15e E-File – Consent placeholder for Global Carry Forward

**Hint:** It looks like the preparer will need to ask the TP whether to GRANT or DENY consent. For now, do whatever you want in this section…

Step 42f E-File – Questions

**Hint:** Answer first three questions using information from Intake Sheet.

“Was the taxpayer physically present during the entire return preparation and quality review process?” – answer Yes

Step 15g E-File – State ID (Optional)

Ignore this section

**Hint:** Click Save when done

Step 43 E-File – Submission

**BP:** Do not click “Ready for Review” at the bottom of this screen.

Click Save And Exit Return