| **Step** | **Form / Note** | **TSO Navigation Path / Screen Line** | **Learning Points** |
| --- | --- | --- | --- |
| **0** | **Intake Sheet Interview** |  | **Filing Status, Dependency** |
|  | Filing Status |  | Using the charts in 4012 Tabs B and C (or your preferred online tool), you determine that Trevor can file as Head of Household (HOH) with qualifying children. Travis is both Trevor’s qualifying child for HOH and his dependent, while Tracy is a qualifying child for HOH, even though she is not Trevor’s dependent (see 4012 Page B-10 Footnote 2). Notice that Tracy’s name appears on the Filing Status line of the 1040 (on PDF, not Summary/Print screen), even though she is not listed in the Dependent section |
|  | Notes |  | Fill in Page 1, shaded area:  - Question 1 – NO for Travis, YES for Tracy  - Question 2 – NO for both  - Question 3 – YES for both  - Question 4 – YES for both  - Question 5 – YES for both  Based on these answers & Pub 4012 Tab C (or your preferred online tool), Travis can be claimed as Trevor’s Qualifying Child for dependency. Tracy’s dependency will be claimed by Trevor's ex-wife |
| **1a** | **Intake Sheet** |  | **Filing Status** |
|  | Part II | Basic Information \ Filing Status | Based on your determination in Step 0, enter Trevor as HOH |
| **1b** | **Intake Sheet** |  | **Personal Information** |
|  | Part I | Basic Information \ Personal Information | To enter a date, choose from drop-down menu or type without leading zeroes |
|  |  |  | Enter current street address & zip code where the taxpayer would like to receive mail from the IRS; TSO will automatically populate city & state  TSO will also default populate the same state as the “Resident state as of 12/31/2018”. TSO uses this to start the correct state return |
|  |  |  | Entry of telephone number is important if we need to reach the taxpayer. It does not appear on the 1040 and will not be used by the IRS or NJ Division of Taxation |
| **1c** | **Intake Sheet** |  | **New Jersey Return** |
|  | Part I  Notes | Start of NJ Return  “Do you meet Property Tax Credit or Deduction Eligibility Requirements?”  “Does the Taxpayer have Health Insurance?”  “Select the County or Municipality of your current residence” | Based on the state selected as the resident state as of 12/31, TSO automatically starts the NJ return and provides a NJ refund monitor  Complete the NJ questions presented as follows:  Answer NO at this point. You can update as needed when you are completing the State section  Answer YES  Since Pluckemin is not listed in the drop-down menu, use the NJ Municipality Code Lookup Tool on TaxPrep4Free.org Preparer page to determine the proper Municipality for Pluckemin (Somerset - Bedminster Twp.). Click on Continue right after this question  Do not enter any other information in the TSO State section until you have finished all the Federal and Health Insurance inputs. Instead, as you go through the Federal section, note any information where NJ tax law requires different handling than the Federal. Capture that info on the NJ Checklist. You will then use the Checklist to enter items in the State section later |
|  |  | NJ Checklist   * Health Insurance for Children row * Disabled row * Number of Dependents Under Age 22 that Attended College Full Time row * Gubernatorial Elections Fund * Health Insurance Coverage for Taxpayer * Veteran | Complete the Basic Information section of the Checklist now, as follows:  Dependent’s Health Care Coverage – Answer YES to indicate that dependents have health care coverage as of now. It does not matter if they did not have coverage all of last year for this NJ question  This info is not used for income tax purposes; it is used to identify and reach out to residents who are uninsured to make them aware of the availability of health care coverage under the Medicaid and NJ FamilyCare Programs  Trevor is not disabled, so circle NO  Answer 0  Answer NO. Trevor wants this answer to be the same as for the Presidential Election Fund. Intake/Interview Sheet shows Presidential as NO  Answer YES to indicate that Trevor has health insurance coverage  Answer NO since Trevor is not a veteran |
| **1d** | **Intake Sheet** |  | **Dependents or Qualifying Persons** |
|  | Part II | Basic Information \ Dependents/Qualifying Person | List information about first dependent (order does not matter). Add a separate screen for each additional dependent by clicking on the Add A Dependent or Qualifying Child line  Travis (TSO automatically populates last name the same as taxpayer’s), Citizen, Son, 12 months lived in your home, no boxes checked  Tracy (TSO automatically populates last name the same as taxpayer’s) – Citizen, Daughter, 12 months lived in your home, "Check if this qualifying child is NOT YOUR DEPENDENT" box checked (since Tracy will be claimed by Trevor’s ex-wife)   * Do not check the box that says, "Check if you wish NOT to claim this dependent for Earned Income Credit purposes." Trevor can still claim Tracy for EIC as the custodial parent, even though he does not claim her dependency |
| **2** | **W-2** |  | **W-2 for Acme Diner** |
|  |  | Federal section \ Income \ Enter Myself \ Wages and Salaries (Form W-2) |  |
|  | Box e | Whose W-2 is this? | Since there is no spouse, TSO knows it can automatically answer this question with “taxpayer” |
|  |  | Employee's Name & Address fields | TSO populates Trevor's name & address info from the Basic Information section. If printed W-2 info is different, make necessary changes |
|  | Boxes b & c | Employer's Name & Address fields | Enter Employer ID # (EIN). TSO populates name & address if in database. Always check to make sure it matches printed W-2; address can frequently change. Make necessary corrections |
|  | Box 1 | Wages, Tips | Enter $19,000 as Federal wages. TSO automatically populates the amounts in Boxes 3-6, based on what you entered in Box 1  Notice that the Social Security Wages on the printed W-2 in Box 3 are less than the Wages in Box 1. That is because there are also Social Security Tips in Box 7. Box 3 + Box 7 = Box 1. Since TSO calculated Box 3 based solely on Box 1 wages, you must manually correct Box 3  Once you manually adjust Box 3 to match the printed W-2, TSO re-calculates Box 4 based on the new amount in Box 3. Since Social Security taxes are also withheld from the SS tips in Box 7, you must now manually correct Box 4  TSO transfers Box 1 wages to 1040 Line 1. Total is now $19,000 |
|  | Box 2 | Federal Tax Withheld | Enter $1,900 as Federal tax withheld  TSO transfers to 1040 Line 16 |
|  | Box 7 | SS Tips | This box shows the tips that were reported to the employer. The employer withholds SS and Medicare taxes as appropriate  Enter $600 as the Social Security tips |
|  | Box 8 | Allocated Tips | The employer legally must also account for estimated unreported tips (calculated from the difference between the reported tips and a specified percentage of food & drink sales). That difference must be allocated among all employees, and each employee’s share is reported on the W-2 as Allocated Tips in Box 8  Enter $250 as allocated tips  TSO transfers to 1040 Line 16. Total wages are now $19,250 |
|  |  |  | The employer does not withhold SS or Medicare taxes on allocated tips, so the employee must pay those with their tax return. TSO automatically completes Form 4137 to calculate the taxes due ($16 for SS; $4 for Medicare)  TSO transfers the total taxes due ($20) to Sch 4 Line 58. It should check that these taxes were from Form 4137. Currently, TSO is checking the box properly on Sch 4 in the PDF, but it is not checking the box on the Summary/Print screen |
|  | Box 15 | State Name  State EIN | Choose New Jersey from the drop-down menu  Enter employer's state ID number (if not automatically populated) |
|  | Box 16 | State Wages | TSO automatically populates state wages with the amount from Box 1. Verify that this matches the printed W-2; change if needed  TSO transfers Box 16 NJ wages to NJ 1040 Line 15. Total NJ wages is now $19,000. The $250 allocated tips appear on NJ 1040 Line 26 as Other Income |
|  | Box 17 | State Income Tax | Enter $380 as state income tax withheld  TSO transfers to NJ 1040 Line 53 & to Sch A line 5a |
|  | Box 19 | Box 14 Codes & Amounts | Notice that this W-2 indicates the other NJ taxes withheld below Box 19, not Box 14 where you usually see them. Just enter in Box 14 in TSO  Choose the type of other NJ withholdings listed in Box 14 from the drop-down menu & enter associated amounts. Note that UI and WF/SWF amounts must be added together and placed on NJSUI line. TSO does not allow you to use the same special code from the drop-down menu more than once  TSO transfers the appropriate withholdings to Sch A Line 5a for the State Income Taxes deduction. Line 5a is now $514 |
|  |  |  | Once you click on Continue, TSO gives you a warning message, "Your Social Security withholdings (Box 4) appear to be too large. Generally, your Social Security withholdings should not be larger than 6.2% of the amount in Box 3." In this case, SS withholdings should be 6.2% of Box 3 + tips in Box 7, so the Box 4 SS withholdings amount is not too large  Once you have verified that your entries are correct, just click Continue |
|  |  |  | The Federal refund amount is so much more than the withholding amount on the W-2 because Trevor is eligible for 2 refundable credits at this point – the Earned Income Credit and the Additional Child Tax Credit. These could change as more income is added to the return  Since Trevor receives a Federal EIC, he is also eligible for a NJ Earned Income Tax Credit (EITC). It is 37% (2018)/39% (2019) of the Federal amount. That is why the NJ refund is $2,067 more than the NJ withholdings. |
| **3a** | **1099-R** |  | **1099-R for Acme IRAs** |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB, SSA) \ Add or Edit a 1099-R |  |
|  | Payer's Name & Address  Payer’s TIN | Payer Information | Enter Payer's Taxpayer Identification # (TIN). TSO populates name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change. Make necessary corrections |
|  | Recipient's Name & Address | Whose 1099-R is this? | Since there is no spouse, TSO knows it can automatically answer this question with “taxpayer” |
|  |  | Recipient Information | TSO populates Trevor's name & address info from the Basic Information section. If printed 1099-R address is different, make necessary changes |
|  | Box 1 | Gross Distribution | Enter $2,000 as gross distribution amount |
|  | Box 2a | Taxable Amount | TSO automatically transfers the gross amount from Box 1 into Box 2a as the taxable amount. If the taxable amount should be something different, you must manually change it |
|  | Box 4 | Federal Income Tax Withheld | Enter $200 as the Federal income tax withheld |
|  | Box 7 | Distribution Code | Enter code 1 for early distribution, no known exception. Since Trevor is withdrawing money from his IRA before age 59½, he is subject to a 10% early withdrawal penalty unless he qualifies for an exception. Ensure that the IRA box is checked in Box 7. Note that for TY2018, IRA and pension/annuity distributions both show on the same line 4 on the 1040 (separated into 2 separate lines for 2019) |
|  |  |  | TSO transfers the taxable amount in Box 2a ($2,000) to 1040 Line 4b and to NJ 1040 Line 20a  TSO tranfers the Federal tax withheld to 1040 Line 16 and the NJ tax withheld to NJ 1040 Line 53 |
| **3b** | **1099-R** |  | **1099-R for Acme IRAs – Distribution Penalty** |
|  |  | Federal section \ Income \ Enter Myself \ IRA/Pension Distributions (1099-R, RRB, SSA) \ Add or Edit a 1099-R | When you click Continue after entering the 1099-R data, TSO brings up a page that explains about the penalty. Read carefully  In the middle of the page, TSO asks "What type of plan did you receive this distribution from?" You must click on Retirement Plan  TSO does not calculate the 10% penalty until you click on Continue on this screen |
|  |  |  | TSO calculates a 10% penalty ($200) and populates it on Sch 4 Line 59 |
|  |  |  | Trevor may be able to avoid the 10% penalty if he qualifies for an exception. Refer to Pub 4012 Page H-5 to see if there is an appropriate exception  Trevor may be eligible for exception 05 if he had unreimbursed medical costs in excess of 7.5% (10% in 2019) of his AGI. Since his AGI is not yet finalized, you should wait until Step 11 before you check to see if Trevor qualifies for this exception |
| **4a** | **1099-MISC** |  | **1099-MISC and Self Employment for Acme Services** |
|  |  | Federal section \ Income \ Enter Myself \ Form 1099-MISC |  |
|  | Payer's Name & Address  Payer TIN | Payer Information | Enter Payer's TIN. TSO populates name & address if in database. Always check to make sure it matches printed 1099-MISC; address can frequently change. Make necessary corrections |
|  | Recipient's Name & Address | Whose 1099-MISC is this? | Since there is no spouse, TSO knows it can automatically answer this question with “taxpayer” |
|  |  | Recipient Information | TSO populates Trevor's name & address info from the Basic Information section. If the 1099-MISC info is different, make necessary changes |
|  | Box 4 | Federal Income Tax Withheld | Enter $7,000 as the Federal income tax withheld  TSO transfers to 1040 Line 16 |
|  | Box 7 | Nonemployee Compensation | Enter $35,000 as nonemployee compensation |
|  | Box 16 | State Tax Withheld | Enter $700 as the NJ tax withheld  TSO transfers to NJ 1040 Line 53 |
|  | Box 17 | State/Payer’s State No. | Enter the NJ payer’s number |
|  |  | Create a New Schedule C Income from Business | When you click on Continue from the 1099-MISC screen, TSO includes the Federal and NJ income taxes withheld in the Refund Monitor numbers. However, it does not include the Nonemployee Compensation amount in AGI until you specify what form to associate the income with  When TSO asks, “Where would you like to add the income,” click on “Create a New Schedule C Income from Business.” Once you have done so, TSO adds the Nonemployee Compensation to AGI  If you see the word “None” on the 1099-MISC summary screen in the “Carried To” column, you know that you did not associate the 1099-MISC to the appropriate schedule and the income does not appear on the 1040 at all |
| **4b** | **Notes** |  | **Sch C - Basic Information** |
|  |  | **Basic Information**  Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Basic Information about Your Business |  |
|  |  | Business Owner | TSO specifies that the business belongs to the taxpayer |
|  |  | Name & Address | Leave this blank since there is no separate business name or address |
|  |  | Business Code | You may have trouble finding the business code for this business in the NAICS Search Tool on TaxPrep4Free.org Preparer’s page. It will be listed in the Special Topics document on Rideshare  Use 485990 as the business code |
|  |  | Description of Business | When you enter the business code, TSO will automatically populate the description associated with that code, "Other transit" |
| **4c** |  |  | **Schedule C - Questions about the Operation of Your Business** |
|  |  | Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Questions About the Operation of Your Business |  |
|  |  | Accounting Method, Method Used to Value Closing Inventory, and Material Participation | TSO has already defaulted the accounting method to Cash and the inventory valuation method to Cost. It has checked the Materially Participated box. If any of these answers do not apply to this business, the return is Out of Scope  There is no need to check any other boxes on this screen unless this is the first Sch C that you have filed for this business. That is not true for Trevor |
| **4d** |  |  | **Schedule C - Income** |
|  |  | Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Income | TSO has already brought forward the $35,000 income from the 1099-MISC |
|  |  | Gross Receipts or Sales (including income reported on Form 1099-K) | Enter 1099-K credit card charges of $18,000 using the Itemized Amounts button. Add a second item for the $2,000 cash tips |
|  |  |  | TSO transfers $55,000 ($35,000 + 18,000 + $2,000) to Sch C Line 1 as Gross Receipts or Sales. The total Gross Income is also $55,000 on Line 7 |
| **4e** |  |  | **Schedule C - Car and Truck Expenses** |
|  |  | Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Car & Truck Expenses |  |
|  |  | Description of Vehicle | Enter 2016 BMW as the description of the vehicle |
|  |  | Date You Placed Your Vehicle in Service for Business Purposes | Enter 08/01/2017 as the date the car was placed into service for the business |
|  |  | Business Miles | Trevor can claim the 20,000 miles he drove while transporting customers plus the 5,000 miles he drove between rides as business miles. TSO calculates the business mileage expense of $13,625 (25,000 miles x $.545 per mile for 2018) ($.58 per mile for 2019) |
|  |  | Commuting Miles | Trevor cannot claim the miles driven from his home to his first customer (or a staging area) or the miles driven from his last customer to his home; they are considered commuting miles. Enter 1,000 commuting miles |
|  |  | Other | Enter 24,000 as other miles (50,000 total miles minus 25,000 business miles minus 1,000 commuting miles) |
|  |  | Checkboxes | Do not check box that says, "Check if you have (or your spouse has) another vehicle available for personal use" since Trevor only has one car |
|  |  |  | Check box that says, "Check if your vehicle was available for personal use during off-duty hours" |
|  |  |  | Check box that says, "Check if you have evidence to support your deduction." |
|  |  |  | Check box that says, "If yes, check if the evidence is written" |
|  |  |  | TSO transfers the $13,625 business mileage expense to Sch C Line 9 & all the other car & truck info to Sch C Part IV |
| **4f** |  |  | **Schedule C - Other Expenses** |
|  |  | Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ Other Expenses |  |
|  |  |  | Trevor can claim 100% of these expenses as business expenses:   * $150 for business cards * $200 for business-related tolls (can be added to general business mileage rate expenses) * $1,800 for Acme Rideshare expenses * $250 for special liability insurance as a rideshare driver * $20 for bottled water for passengers * $1,200 for separate business cell phone and service   These total $3,620 |
|  |  |  | Trevor must divide his auto loan interest between business expenses and personal expenses, using some reasonable method. He chooses the mileage percent method. The expenses are allocated based on the percentage of total miles used for business (25,000/50,000 = 50%) vs. the percentage for personal and commuting use ((24,000 + 1,000)/50,000 = 50%)  Therefore, Trevor can claim $600 of his total auto loan interest of $1,200 on Schedule C |
|  |  |  | Trevor cannot claim the $800 for normal auto insurance, the $11,400 for car repairs, or the $600 for car cleaning and detailing. Those costs are included in the standard business mileage rate  Trevor also cannot claim the $1,250 for meals while waiting for customers; those are personal expenses |
|  |  |  | Enter Trevor’s business expenses on the Other Expenses screen. You should enter each expense separately to clarify items for the Quality Reviewer. The total Other Expenses on Schedule C Line 48 are $4,220  As an alternative, you could also separate these expenses into the appropriate categories on the General Expenses screen and use the Itemized Amounts buttons |
|  |  |  | TSO transfers the total of Other Expenses to Schedule C Line 27a |
|  |  |  | Total business expenses are now $17,845 ($13,625 + 4,220), which TSO populates on Sch C Line 28 |
|  |  |  | TSO calculates net profit/loss from business of $37,155 ($55,000 – 17,845) on Sch C Line 31. (If Trevor had a loss, the return would be Out of Scope)  TSO transfers the net profit to Sch 1 Line 12 & to NJ 1040 Line 18 |
|  |  |  | **Self-Employment Taxes & Adjustment** |
|  |  |  | Self-employment taxes for Social Security and Medicare are due if net self-employment income is $400 or more. TSO automatically calculates Trevor's self-employment taxes of $5,250 on Sch 4 Line 57  TSO also calculates an adjustment to income for one-half of the self-employment taxes ($2,625) on Sch 1 Line 27 |
|  |  |  | **Qualified Business Income Deduction (QBID)** |
|  |  |  | Trevor can take a deduction of 20% of his Qualified Business Income (QBI). QBI for Trevor is net profit on Sch C ($37,155) minus the adjustment for one-half of the self-employment tax ($2,625). The 20% is $6,906  TSO will calculate this deduction automatically on the Qualified Business Income Deduction – Simplified Worksheet. It populates the deduction amount on 1040 Line 9  NOTE: There are new QBI forms for 2019 – Forms 8995 and 8995-A |
| **5** | **1099-C** |  | **Cancellation of Debt (Credit Card)** |
|  |  | Federal section \ Income \ Enter Myself \ Other Income \ Cancellation of Debt (Form 1099-C, Form 982) \ Cancellation of Debt (Form 1099-C) | According to the Screening Sheet for Nonbusiness Credit Card Debt Cancellation on 4012 Page 59, the amount of Trevor’s cancelled credit card debt must be claimed as ordinary income |
|  | Creditor’s Name & Address  Creditor’s TIN | Creditor’s Name and Address  Creditor’s TIN | Enter the creditor’s name and TIN |
|  | Box 2 | Amount of Debit Cancelled | Enter $400 as the amount of debt cancelled  TSO populates the cancelled debt amount as Other Income on Sch 1 Line 21 |
|  |  |  | NJ does not tax cancelled debt income. TSO knows not to automatically transfer the cancelled credit card amount to NJ 1040 Line 26 Other Income. |
| **6** | **1099-G** |  | **Unemployment** |
|  |  | Federal section \ Income \ Enter Myself \ Unemployment Compensation (Form 1099-G Box 1) \ Add or Edit a 1099-G | NJ no longer mails out 1099-G forms to taxpayers. Taxpayers can obtain needed info online from the Dashboard page of their unemployment account from <https://myunemployment.nj.gov/>. If taxpayer has not printed out info, use the link on TaxPrep4Free.org Preparer page to let him look it up. If he does not have log-in information, send him to unemployment office for help |
|  | Payer's Name & Address  Payer’s TIN | Payer Information | Enter Payer's Taxpayer Identification # (TIN) in EIN field. TSO populates name & address if in database. Always check to make sure it matches printed 1099-G; address can change. Make necessary corrections |
|  | Recipient's Name & Address | Recipient Information | TSO populates Trevor's name & address info from the Basic Information section. If printed 1099-G address is different, make necessary changes |
|  | Box 1 | Unemployment Compensation | Enter $2,400 as unemployment compensation  TSO transfers the unemployment income to Sch 1 Line 19 |
|  |  |  | NJ does not tax unemployment income. TSO knows not to let anything flow to NJ return |
|  |  |  | Unemployment income from another state is still taxable for the Federal and tax-exempt for NJ |
| **7** | **Notes** |  | **Alimony Paid** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ Alimony Paid | The rules for alimony are changing beginning 1/1/2019. For divorces that occurred prior to 2019, alimony received had to be claimed as income, while alimony paid could be claimed as an adjustment to income. For any divorce agreement that is finalized in 2019 or modified in 2019 (if the modification expressly states the repeal of the deduction for alimony payments applies to the modification), alimony received will no longer be income and alimony paid will no longer be an adjustment to income  See 4012 Page E-8 for alimony requirements |
|  |  | Recipient’s SSN | Since Trevor was divorced in 2013 and some of his payments meet the alimony requirements, he can claim the amount of alimony he paid as an adjustment to income. You must enter Trevor’s ex-spouse’s SSN so that the IRS can match up the alimony paid amount that Trevor claims with the alimony received amount his ex must report as income |
|  |  | Alimony Paid | According to 4012 Page E-8, child support is not considered alimony. Therefore, Trevor can only claim $300 of his monthly payment. Since the divorce decree specifically states that he is also required to reimburse his ex for specific expenses, he can claim those as alimony also (see Pub 17)  Late payments can be claimed as long as they are eventually paid during the year. Missed payments cannot be claimed  Enter $3,967 as amount of alimony paid (($300 x 10 months) + $967 reimbursements)  TSO transfers the dollar amount and ex’s SSN to Sch 1 Line 31a & to NJ 1040 Line 32 |
| **8** | **Notes** |  | **IRA Contribution** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ IRA Deduction | According to the rules for an IRA deduction on 4012 Page E-9, “Contributions for the current tax year can be made until the filing deadline, generally April 15 of the year following the tax year.” Since Trevor was making a contribution for 2018, he can claim the deduction on his 2018 return even though he made the contribution in 2019 |
|  |  | IRA Contribution | Enter $1,000 as Trevor’s IRA contribution |
|  |  | Retirement Plan | Enter NO that Trevor does not have a retirement plan. This information can impact the amount of his contribution that Trevor can deduct as an adjustment to income  TSO calculates deduction and transfers to Sch 1 Line 32 |
| **9** | **Notes** |  | **Student Loan Interest** |
|  |  | Federal section \ Deductions \ Enter Myself \ Adjustments \ Student Loan Interest Deduction | According to the rules for a student loan interest deduction on 4012 Page E-10, “You can reduce your income subject to tax by up to $2,500” for student loan interest you paid. Trevor paid $2,700 interest, but he can only claim an adjustment for $2,500 |
|  |  | Total Interest Paid on Qualified Student Loans | Enter $2,500 as Trevor’s student loan interest. TSO will allow you to enter the full $2,700, but it knows enough to only allow $2,500 as the adjustment  TSO transfers $2,500 as an adjustment on Sch 1 Line 33 |
| **10a** | **Notes** |  | **Sch A Itemized Deductions - Medical & Dental Expenses** |
|  |  |  | Based on a review of the itemized deductions that Trevor has, you can tell that he will not exceed his standard deduction of $18,000. However, you should still enter his medical and dental expenses, since they might exceed the 2% of NJ gross income threshold necessary for him to claim NJ medical expenses. There is no reason to enter any other Sch A deductions |
|  |  |  | The payment of $287 that Trevor paid in the current tax year when he filed his last year’s NJ tax return is normally deductible in the State Tax Paid section of Sch A. It is entered as Additional State and Local Income Taxes. However, since he will claim standard deduction, it does not have to be entered.  The $545 he paid with his last year’s Federal return is not claimed on this tax year’s return at all |
|  |  | Federal section \ Deductions \ Enter Myself \ Itemized Deductions \ Medical & Dental Expenses |  |
|  |  |  | Note that Trevor can claim Federal medical expenses for himself and both children. According to 4012 Page F-3 Step 3, you can include medical and dental expenses for yourself, all dependents, and your child whom you don’t claim as a dependent because of the rules for children of divorced or separated parents (also other cases not pertinent to this problem) |
|  |  |  | According to NJ 1040 Instructions for Medical Expenses on Line 31, “You can deduct certain unreimbursed medical expenses you paid during the year for yourself, your spouse, and any dependents you claim.” Since Trevor is not claiming Tracy as a dependent, we will have to enter Tracy’s medical expenses on the NJ Checklist in the Subtractions from Income section to reduce his NJ medical expenses  Enter -$350 on the Non-dependent costs line for later entry in the State section |
|  | Premiums for Medical & Dental Insurance | Medical and Dental Insurance | Trevor paid $2,200 for medical insurance and $800 for dental insurance. He can claim both of these on Sch A. However, since he is self employed, he can also claim the $3,000 as an adjustment to income for self-employed health insurance instead. That is usually more beneficial for a taxpayer because Sch A medical expenses are subject to the 7.5% (2018)/10% (2019) threshold. However, there are certain rare circumstances where Sch A might be better. You can enter the insurance both ways and see which produces a more beneficial result. For Trevor, since he will not be itemizing, you will definitely enter the health insurance as an adjustment (in Step 10b)  No matter how you enter the insurance premiums, they flow through to the NJ return. NJ tax law says self-employed health insurance is not subject to the 2% threshold. If entered as a self-employed health insurance adjustment, TSO handles this automatically. However, if the insurance premiums are included with other medical expenses on Sch A, TSO cannot separately exclude them from the 2% threshold. This could potentially have a negative impact on a taxpayer’s NJ tax liability |
|  | Doctor Bills | Amounts Paid to Doctors/Dentists | Enter $3,250 as co-pays and deductibles for doctor and dental bills  For NJ, this amount will be reduced by $350 for Tracy’s non-dependent medical costs once we enter the NJ Checklist items in the State section (Step 14c) |
|  | Unreimbursed Prescriptions | Prescriptions | Enter $2,750 as prescription expenses |
|  | Medical Miles | Medical mileage driven | Enter 600 medical miles. TSO will calculate a $108 medical mileage amount that Trevor can claim based on $.18 per medical mile ($.20 in 2019) |
|  |  |  | On the NJ return, TSO calculates the amount of medical expenses that exceed 2% of NJ Gross Income on NJ 1040 Line 29. It populates that amount of medical expenses on Line 31 |
|  |  |  | TSO has automatically been using the standard deduction since the beginning of the return. The Federal refund monitor does not change. The NJ refund changes because medical expenses flow from Sch A to NJ 1040 Line 31 |
| **10b** | **Notes** |  | **Sch C Health Insurance** |
|  |  | Federal section \ Income \ Enter Myself \ Profit or Loss From A Business (Schedule C) \ General Expenses |  |
|  |  | Health Insurance | Enter $3,000 as self-employed health insurance premiums. Even though you are entering these expenses on the Sch C screen, TSO transfers this amount to Sch 1 Line 29 as an adjustment to income. These premiums do not figure in the Sch C profit calculation  NOTE: TSO offers another way to enter self-employed health insurance directly on the Adjustments screen. It is recommended that you not use that option |
| **11** | **1099-R**  **Notes** |  | **5329 for 1099-R Acme Diners Early Withdrawal** |
|  |  | Federal Section \ Other Taxes \ Tax on Early Distribution (Form 5329) | Since Trevor’s AGI is now finalized, you can now determine if Trevor is eligible to claim a medical expense exception from the 10% penalty for taking an early withdrawal from his IRA (see Step 3). |
|  |  |  | Exception code 05 on 4012 Page H-5 says, “Qualified retirement plan distributions up to (1) the amount you paid for unreimbursed medical expenses during the year minus (2) 7.5% (2018)/10% (2019) of your adjusted gross income for the year.” If your early withdrawal is greater than this calculated amount, the excess will still be subject to the penalty unless he happened to qualify for another exception also  In Trevor’s case, his unreimbursed medical expenses are $9,108. 7.5% of his $48,113 AGI is $3,608. He can claim an exception for a distribution up to $5,550 ($9,108 – 3,608). Since his distribution is only $2,000, he will not have to pay the 10% penalty  There is a good example of this process on 4012 Page H-4.1  NOTE: We confirmed that you can include the self-employed health insurance expenses in this calculation, even if you claim them as an adjustment. **“The exception to the additional tax on an early withdrawal is measured by the amount that *could be*deducted on Schedule A.”** |
|  |  | Early Distributions that are not Subject to 10% Tax | Enter the full amount of the early withdrawal ($2,000) |
|  |  | Select the Reason for Exemption | Select Medical Expenses from the drop-down menu |
|  |  |  | TSO now removes the 10% penalty from Sch 4 Line 59 |
|  |  |  | If medical expenses added up to only $5,108, your calculation would be as follows:  7.5% of AGI = $48,113 x .075 = $3,608  $5,108 - $3,608 = $1,500  The penalty would not apply to the $1,500 that he can claim as an exception, but it would apply to the excess that he withdrew ($2,000 – 1,500 = 500)  You would pay a 10% penalty on the $500 = $50 |
| **12** | **Notes** |  | **Child and Dependent Care Expenses** |
|  |  | Federal section \ Deductions \ Enter Myself \ Credits \ Child Care Credit (Form 2441) | Even though Trevor's ex-wife is claiming Tracy as a dependent, Trevor can still claim the child-care expenses he paid for Tracy. He is the custodial person, and Tracy lived with him for more than ½ the year. See Pub 4012 Page G-10 for details  If a taxpayer has 1 qualifying person, he/she can claim $3,000 in child care expenses. With 2 or more qualifying persons, the taxpayer can claim $6,000 of expenses. Check carefully to make sure that each person fits the criteria to be a qualifying person  NOTE: It is not required that both children have qualifying expenses. For instance, one child could have $6,000 in expenses and the other could have none. If one of the qualifying children has no expenses, you must check the box that says, “Qualified Person had no expenses.” Just be careful to ensure that the person meets all the criteria to be a qualifying person before checking that box  Tracy is a qualifying child for the entire year. Trevor can claim all her child care expenses. Travis turned 13 on 7/1/2013. Therefore, he is only a qualifying child for the 6 months of the year that he was under 13. You can only claim his child care expenses for January – June |
|  |  |  | Click on Add a Child Care Provider line |
|  | **Notes** | Child Care Providers |  |
|  |  | ID Number | Click on SSN/ITIN, and enter Betsy Palantine’s SSN |
|  |  | Provider's Name | Enter Betsy Palantine as the provider's name |
|  |  | Provider's Address | Enter the address where Trevor lives, since Betsy lives upstairs |
|  |  | Amount Paid to Provider for Child Care | Trevor paid Betsy $100 for 12 months = $1,200 for Tracy. He paid $100 for 6 months = $600 for Travis. Therefore, enter $1,800 as the total child care amount paid to provider |
|  |  |  | Click on Step 2 Dependents |
|  | **Dependent Info** | Qualifying Dependent Expenses |  |
|  |  | Dependent Expenses for Tracy | Enter $1,200 as the amount paid for qualifying dependent expenses for Tracy |
|  |  | Dependent Expenses for Travis | Enter $600 as the amount paid for qualifying dependent expenses for Travis |
|  | **Qualifying Persons Info** |  | You do not need to go to Step 3 since there are no other qualifying persons that were not listed in Step 2 |
|  |  |  | The total amount paid to the provider of the child care ($1,800) must equal the total expenses paid for all qualifying dependents ($1,200 + 600 = $1,800) |
|  |  |  | Click on Continue to Page 2 |
|  | **2441 Page 2** | Additional Income for Taxpayer for This Credit section | The Credit for Dependent Care Expenses is for individuals who paid for child care so that they could work. For this credit to calculate, the taxpayer and the spouse, if applicable, must each have earned income. There are exceptions to the rule for disabled persons or full-time students who were unable to work. The Additional Income section on Page 2 is used for these exceptions. If the taxpayer (or spouse) is a full-time student or disabled, you would enter $250 per month or $500 per month if more than one qualifying person was cared for during the year. Entering this income is for the purpose of calculating this credit only. No income would actually be added to income on the tax return  Since Trevor had earned income on his W-2 and Sch C, the additional income part of Page 2 does not need to be completed |
|  |  | Employer-Paid Dependent Care Benefits | If the employer had paid any dependent care benefits for the employee and noted that amount on the W-2 in Box 10, TSO would automatically subtract that amount when calculating the credit. If the employee received any employer paid dependent care benefits that were not included on the W-2, you would enter the amount manually on the Employer-Paid Dependent Care Benefits line  Trevor did not receive any employer paid dependent care benefits |
|  |  |  | TSO creates Form 2441 to claim this credit. It calculates that the allowable credit is $360  TSO transfers to Sch 3 Line 49 as a nonrefundable credit |
| **13** | **Notes** | **Health Insurance Section** | **ACA Health Insurance** |
|  |  |  | NOTE: For 2019, people are still required to have medical insurance. However, the Shared Responsibility Payment (SRP) has been set to zero. Therefore, in the 2019 Federal Health Insurance section, TSO has taken out all the questions relating to Minimum Essential Coverage (MEC) and exemptions for not having coverage. However, we do still have to deal with the reconciliation of the Advanced Premium Tax Credit on Form 1095-A. Therefore, TSO now starts out by asking, “Did you purchase Health Insurance via Healthcare.gov or a State Marketplace?” If you answer YES, TSO will continue with the reconciliation questions and forms. If you answer NO, you have finished with the Health Insurance section  Since we are using 2018 software for this problem, we still have to answer the 2018 questions based on the old health insurance requirements  NOTE: Starting in 2019, NJ has instituted a Health Insurance Mandate with SRPs and exemptions. We do not know yet what we will have to do in TSO to comply with this new state law |
|  |  | Did you or your family have health insurance at any time in 2018? | Answer YES |
|  |  | Did you purchase health care via Healthcare.gov or a State Marketplace? | Answer NO |
|  |  | Verify Your Household Members | Household members listed on this screen are the people listed under the Basic Information section. If you need to add or remove dependents, go to the Basic Information section. If you have additional household members that are neither a spouse nor a dependent, click "Add a New Household Member."  Since Tracy is being claimed as a dependent by her mother, her mother is responsible for reporting Tracy’s health insurance on her return  If these situations do not apply, just click Continue |
|  |  | Was your entire household insured for all 12 months of 2018? | Answer YES |
|  |  |  | TSO checks the full-year health care coverage box on the first page of the 1040. This box no longer exists for 2019 |
|  |  |  | **State Section (New Jersey)** |
|  |  |  | As you have been completing the Federal section, you have been collecting information for areas where NJ tax law requires different handling than the Federal on the NJ Checklist. Now you will enter that information into the State section |
| **14a** | **NJ Checklist** |  | **NJ Checklist - Basic Information** |
|  |  | State section \ Edit \ Enter Myself \ Basic Information |  |
|  | Municipality Code row | Select the County or Municipality of your current residence | This question was answered when you first started the NJ return in Step 1c. The answer should be Somerset – Bedminster Twp. |
|  | Health Insur- ance for Children row | If claiming dependents on your Federal return, are the dependents covered by health insurance coverage? | Answer YES |
|  | Disabled row | Were you disabled as of 12/31/2018? | Answer NO |
|  | Dependents under age 22 that attended college full time | Enter the number of dependents under age 22 claimed on your Federal return that attended college | Answer 0 |
|  | Gubernatorial Elections Fund row | Gubernatorial Elections Fund | The Intake/Interview Sheet shows that Trevor did not wish to contribute to the Presidential Elections Fund. The Interview notes tell you that he wishes to handle the Gubernatorial Elections Fund question the same way  Answer NO |
|  | Health Insur- ance for Tax-payer and Spouse row | Has Health Insurance Coverage? | Answer YES |
|  | Veterans row | Were you a military veteran who was honorably discharged or released under honorable circumstances from active duty in the Armed Forces of the United States by the last day of the tax year? | Answer NO. Since Trevor was not a veteran, he cannot receive the additional $3,000 (2018)/$6,000 (2019) veteran’s exemption |
| **14b** | **NJ Checklist** |  | **NJ Checklist - Income Subject to Tax** |
|  |  | State section \ Edit \ Enter Myself \ Income Subject to Tax | No entries in this section |
| **14c** | **NJ Checklist** |  | **NJ Checklist - Subtraction from Income** |
|  |  | State section \ Edit \ Enter Myself \ Subtractions from Income | Enter -$350 to subtract Tracy’s non-dependent medical costs from NJ 1040 Line 31 |
| **14d** | **NJ Checklist** |  | **NJ Checklist - Credits** |
|  |  | State section \ Edit \ Enter Myself \ Credits |  |
|  | Property Tax row | Did You Meet Property Tax Eligibility Requirements? | The eligibility requirements for the property tax deduction/credit can be found in the NJ 1040 Instructions on Page 26. Answer YES to indicate that Trevor meets the requirements to claim a NJ property tax deduction\cred |
|  |  | Enter Property Taxes Paid | Trevor can claim 18% of his rent as property taxes paid. The total rent he paid for the year is $9,000 ($700 x 6 = $4,200 + $800 x 6 = $4,800). When you calculate 18% of the rent, you can claim $1,620 as property taxes  Enter $1,620 as property taxes |
|  |  | Were You a Homeowner in 2018? | Answer NO since the Trevor was not a homeowner last year |
|  |  |  | TSO determines that it is better for Trevor to claim the property tax credit than the deduction.  TSO populates $50 on NJ 1040 Line 54 |
| **14e** | **NJ Checklist** |  | **NJ Checklist - Tax** |
|  |  | State section \ Edit \ Enter Myself \ Tax |  |
|  | Use Tax Row | Use Tax Due on Out-of-State Purchases | Trevor did not make any purchases that are subject to Use Tax, so you do not have to do anything in this step |
| **14f** | **NJ Checklist** |  | **NJ Checklist - Payments** |
|  |  | State section \ Edit \ Enter Myself \ Payments | No entries in this section |
| **14g** | **NJ Checklist** |  | **NJ Checklist - Miscellaneous Forms** |
|  |  | State section \ Edit \ Enter Myself \ Miscellaneous Forms \ Estimated Payment Vouchers, Form NJ-1040-ES |  |
|  | NJ Estimated Payment Vouchers | NJ Estimated Payment Vouchers | Trevor does not have to make any estimated payments, so you do not have to do anything in this step |
|  |  | **E-File Section** |  |
| **15** |  |  | Resolve any warnings that TSO displays before moving on |
| **15a** | **Intake Sheet** |  | **E-File - Return Type** |
|  | Additional Information Section | Federal Return Type | Per the Intake Sheet, Trevor wants to have his refund direct deposited  Choose E-file: Direct Deposit from the drop-down menu as the Federal return type. This means that you are e-filing the return, and his refund will be sent directly to the bank account you enter |
| **15b** | **Notes** |  | **E-File - Tax Preparation & E-File Information** |
|  |  |  | The fees section does not apply to the TaxAide program |
|  |  | Client Email | Enter TBickle@Acme.com as Trevor's email |
|  |  |  | The E-file PINs are automatically generated by TSO |
| **15c** | **Notes** |  | **E-File - State Return(s)** |
|  |  | State Return Type | Per the interview, Trevor wants to have his NJ refund direct deposited also  Choose E-file: Direct Deposit as the NJ return type from the drop-down menu  NOTE: TSO now lists the State Return Type choices in the same order as the Federal Return Type choices |
| **15d** | **Notes** |  | **E-File - Taxpayer Bank Account Information** |
|  |  | Account Type | Choose Checking from the drop-down menu |
|  |  | Bank Name | Enter Your Bank as the name of the bank |
|  |  | Pull Refund | Click on the Pull Refund button. TSO will display the Federal refund $3,573 |
|  |  | Routing Number | Enter 325070760 as the bank routing number (RTN). Be sure to use the RTN from an actual check. The RTN on a deposit slip may be different |
|  |  | Account Number | Enter 987123654 as the bank account number |
|  |  | Confirm RTN/Account Number | TSO makes you enter the RTN and account number a second time to verify accurate numbers. You cannot cut and paste since TSO masks the first numbers you entered |
| **15e** | **Notes** |  | **E-File - Third Party Designee Info** |
|  |  |  | No entries in this section |
| **15f** |  |  | **E-File – Consent to Disclose Tax Return Information to VITA/TCE Tax Prep Sites** |
|  |  | Consent Status | Trevor agrees to GRANT consent. Click on GRANT circle |
|  |  | Primary PIN | Enter any 5-digit number as the PIN |
|  |  | Primary PIN date | Choose today’s date as the primary PIN date |
| **15g** | **Intake Sheet**  **Notes** |  | **E-File - Questions** |
|  |  | Would you say you can carry on a conversation in English, both understanding & speaking? | Choose Prefer not to answer from the drop-down menu. Since Trevor answered all the questions this way, it is OK to explain that these questions are asked in order for the AARP Foundation to obtain grant money to continue to fund our free program. Without putting any pressure on the taxpayer, you can just confirm that he still prefers not to answer them |
|  |  | Would you say you can read a newspaper or book in English? | Choose Prefer not to answer from the drop-down menu |
|  |  | Are you or your spouse a Veteran after the US Armed Force? | Choose Prefer not to answer from the drop-down menu |
|  |  | Do you or any member of your household have a disability? | Choose Prefer not to answer from the drop-down menu |
|  |  | Are you or your spouse a Veteran from the U.S. Armed Forces? | Choose Prefer not to answer from the drop-down menu |
|  |  | Was the taxpayer physically present during the entire return preparation and quality review process? | Choose YES from the drop-down menu |
|  |  | Your race? | Choose Prefer not to answer from the drop-down menu |
|  |  | Your ethnicity | Choose Prefer not to answer from the drop-down menu |
|  |  |  | Click Save |
| **15h** |  |  | **E-File – State ID (Optional)** |
|  |  |  | NJ does not require State ID, so no entries in this section |
| **15i** |  |  | **E-File - Submission** |
|  |  |  | Follow District/Site rules for what to do on this screen |