

FISCAL CLIFF ACT CHANGES & TW12 CHANGES 1/3/13

I. Following are Fiscal Cliff Act changes that impact AARP Foundation Tax-Aide tax return preparation. These expired provisions were reinstated and made retroactive to January 1, 2012. There are many other changes, such as tax rates, that are automatically calculated by TaxWise.

- 1) IRA distribution for Charitable Purposes (some special processing for January 2013 and December 2012)
- 2) Educator Expense Adjustment up to \$250
- 3) Tuition/Related Expenses as an adjustment to income
- 4) Mortgage Insurance premium deduction on Sch A
- 5) State/local general sales taxes deduction on Sch A
- 6) Non business energy credit
- 7) Alternate Minimum Tax (AMT) has been indexed to inflation (\$78,750 MFJ and \$50,600 for single filers for 2012).

II. Significant TW12 changes from TW11

- 1) W-2: There are a couple of changes. The employer address entry is different this year. Previously, the first line after the company name was c/o, this year the address goes on the first line and the second line is available if necessary. It is not known at this time how the carry forward address will be displayed. Testing has shown that the previous c/o info (which was a continuation of the company name) will carry forward to the second line of the address. A second change has been made to apparently detect fraudulent W-2's. If the Federal Tax withholding is at a certain percentage (CCH has used the tax table in Pub 17 but the exact algorithm is not known) the box labeled [Check to verify employer was contacted to verify W-2] will become red indicating that the employer should be contacted. If this situation occurs, the counselor should first check for proper entry of wages and withholding, and then conduct due diligence with the taxpayer to make sure the information is correct. If all appears to be in order, the red should be removed.
- 2) 1099R – A similar change on employer address entry was made. Enter the employer address on the first address line.

- 3) It was thought that the capital gains worksheet would change this year (and in fact the TW12 training version did change) based on the preliminary 8949 format which included a column for stock symbol and number of shares. The final form 8949 release dated 12/31 did not include these columns, so the capital gains worksheet will be changed accordingly. The only change from TW11 will probably be to move the Adjustment Code column next to Adjustment Amount column. Testing has shown that this year the adjustment codes will not allow double characters that were required last year to avoid rejects (we had to use HH for example).
- 4) Form 8863 Education Credits has changed this year and requires that page 2 be selected initially to enter data. This is a little cumbersome at this point because both pages 1 and page 2 have to be downloaded. Perhaps these pages should be added to the tree if the site does many returns with education credits; however, this might be modified in a future TaxWise software updates so the link from 1040 Page 2 will bring up either 8863 page 2 initially or both pages 1 and 2. More data is required this year on page 2 for each educational institution.
- 5) A new worksheet 7 has been added to accumulate line 21 other income. Items such as gambling winnings will automatically flow from the W-2G to the worksheet. The worksheet can be accessed by linking from line 21. With a W-2G, this software change will enter GAMBLING WINNINGS in the Line 21 text field, thus avoiding the common reject in this area.
- 6) In TWO, a Taxpayer Diary icon is available which allows access during the preparation of the return to enter notes. When the return is closed, a tiny icon appears to the left of the SSN to indicate that information is available for that return. It is an excellent tool for tracking reject processing or for returns not yet completed.
- 7) Schedule C scope is limited to that of Sch CEZ. Primarily, there can be no loss, expenses are limited to \$5,000 and only one Sch C per taxpayer or spouse.
- 8) The Prep Use form does not need to have the SIDN included as Field 15 and an optional line for Field 16 has been added [Some sites are using it to indicate: QR verified the correct return stage is entered]