

2012 IMPORTANT LEARNING POINTS FOR FLEMING PROBLEM

DOCUMENT	LEARNING POINTS TO CHECK & EMPHASIZE
Main Info screen Notes 2 & 6 & 8	Address from Intake/Interview sheet should be corrected to 356 Wilkes Drive
	Filing status = Head of Household. Grete is the qualifying person. No need to enter James' name & Social Security # on HOH line
	James is listed under Dependents/Non-Dependents. Code should be 0 (non-dependent), since divorce decree states ex-husband can claim dependency. While James' info is entered on the Main Info screen, it does not show in the Dependents section of the 1040 itself, since Anna is not claiming him as a dependent
	Ensure that box for "permanent & total disability" is checked for Anna under Taxpayer Info
	Presidential election campaign box should be checked
	Dependent care & EIC should be checked for James Dependent care, EIC, & CTC should be checked for Grete
Prep Use Form	Answer NONE to language question on Line 11. Answer YES to disabled question on Line 12.
	Insert preparer's initials on Line 13 & QR initials on Line 14
W-2 Oakwood World-Herald	Check "If this is the taxpayer's address shown on the W-2"
	Enter Employer ID #. TW will populate name & address if in database. Still check to make sure it matches printed W-2
	On scratch pad for NJSUI line, add WF/SWF amount in Box 14 to Unemployment amount
W-2 Butler Inc.	Use + sign next to W-2 in Forms Tree to get a second W-2 form
	Check "If this is the taxpayer's address shown on the W-2"
	Enter Employer ID #. TW will populate name & address if in database. Still check to make sure it matches printed W-2
	Notice that there is a Private Plan (PP) # for disability (DI) on bottom left of W-2. Must be entered into TW under NJSDIPP, instead of NJSDI (state disability plan only). TW will then stop the amount from flowing through to Schedule A Line 5a State Income Taxes (should be \$933)
	Anna had 2 employers & contributed more than the maximum amount for disability. Entering disability under NJSDIPP also stops the amount from flowing through to NJ Form 2450 for Excess Unemployment and Disability. Must manually add the amount to Form 2450 by linking to a scratch pad from the Butler Inc disability box (Line 1b Column B). Also add Private Plan #9786654 on Line 2b
1099-INT Parks National Bank	Enter interest on Interest Statement. TW will transfer appropriate amounts back to Schedule B & 1040 Lines 8a & 8b
	Interest is taxable for both Federal & NJ so no state adjustment is necessary
1099-R Northern	Ensure that Code 1 is entered in Box 7 (See back of 1099 for codes). This

Financial Services	indicates that it is an early distribution from an IRA (prior to age 59 1/2, no known exception). Cannot claim exception for permanent & total disability (exception code 03) on Form 5329 because when distribution was taken in January, she was not yet disabled (accident happened in June). In January, money was being used to pay off credit card debt, which is not an exception. If Anna had been disabled when she took the distribution, then she could have qualified for exception.
	Ensure that IRA box is checked so that amounts will transfer to 1040 Line 15 for IRAs, not Line 16 for pensions
1099-R Tri-State Publishers	Use + sign next to 1099-R in Forms Tree to get a second 1099-R form
	Distribution code in Box 7 is 3 for permanent & total disability. Ensure that box is checked under box 7 on TW screen (“Check if disability & taxpayer is disabled.”) This box is on TW screen—no corresponding box on 1099-R form). This will put the \$5,400 under Wages on 1040 Line 7, rather than under Pensions on 1040 Line 16
	Having pre-retirement disability on 1040 Wages Line 7, instead of Line 16, could be important for EIC (which requires earned income) & for other reasons.
	Once the disability box is checked, TW will exclude the disability amount from NJ pension income on NJ 1040 Line 19. The amount will also not be included on Line 14 Wages because disability is not taxed in NJ
1099-MISC Wright Publishing & Note 1	Enter the following: Line A: “Editing” Line B: “541990” Line F: Cash Line G: Yes Line H: Do not check Line I: No
	Must link to 1099-MISC screen from Schedule C Line 1b to enter Nonemployee Compensation; do not enter directly on 1099-MISC without linking because TWO will not be able to transfer the income back to Schedule C. 1099-MISC can be associated with other forms (such as 1040 Line 21, Schedule E, etc.)
	Complete Schedule C Part IV on Page 2 for mileage expenses. Enter the following: Line 43: 7/1/2008 Line 44a: Enter 234 business miles & 10,000 other miles. TW will automatically enter the business miles on line for 1/1/2011 through 6/30/2011, which is right line for January & February deliveries. Check box for TW to automatically calculate business miles at standard mileage rates (\$.51/mile for first half of year). TW will automatically transfer total to Schedule C Line 9 on Page 1 Line 45: Yes Line 46: No Line 47a: Yes Line 47b: Yes
	List expenses under Part V Other Expenses. TW will transfer total to Line 27a on

	Page 1
	List word processing course as Business Expense for now. Will try Lifetime Learning Credit option later
	TW will calculate net profit on Schedule C Line 31 & transfer to 1040 Line 12
	After completion of Schedule C, TWO will automatically calculate Self-Employment Tax (1040, Line 56) & adjustment for deductible part of Self-Employment Tax (1040 Line 27). Self-employment tax for 2011 & 2012 is 13.3%, with 10.4% for Social Security and 2.9% for Medicare. The SS part is reduced 2% due to temporary payroll tax cut
1099-G NJ Unemployment Commission	Link from 1040 Line 19 to 1099-G. Enter unemployment benefits on Line 2 & Federal tax withheld on Line 5
Alimony in notes	Alimony of \$300 was only paid for 8 months. Enter this calculation on a scratch pad on 1040 Line 11
Global Investment Services (Note 3)	Enter tax-exempt interest amount on Interest Statement under NAEOB column with code E. Since also tax-exempt in NJ, no need for state adjustment
Salem Day Care Center expenses (Note 9)	Can claim Child & Dependent Care expenses for both Grete & James on Form 2441. One Line 1a, enter total expenses (\$1,793). On Line 2a, enter \$890 for Grete & \$903 for James. James' expenses can be claimed (even though he is not Anna's dependent) due to Special Rules for Divorced & Separated Parents (Pub 17). Anna is custodial parent
	Enter center's name & address on Lines 1a & 1b
	Check EIN box in 1c & type in EIN. TW will populate E as Type. If TW tells you this is a calculated field, link to Care Providers Identification Numbers & Amounts Paid Worksheet & enter info there. Do not enter hyphen in EIN
	TW transfers credit from Line 11 to 1040 Line 48
1040 Page 1 still red (Note 5)	Answer NO to question above Line 10
Sch B is still red	Answer NO to financial involvement questions on bottom of Sch B
Sch EIC Worksheet still red	Answer only questions underlined in red on Schedule EIC & EIC Worksheets. Be sure to follow GO TO directions & to not answer questions you shouldn't. Otherwise, EIC could be wrong
	James is not qualifying child of ex-husband because James did not live with him (Pub 4012 Page H-4)
	TW transfers EIC from Sch EIC Wkt Line 9 to 1040 Line 64a
Note 12 Municipality Code	Enter Municipality Code for Jersey City (0906). Can obtain from NJ 1040 instruction booklet or from link on Preparer page on taxprep4free.org website
Notes 5, 13, 14	Check YES to Gubernatorial Elections Fund question "Do you wish to designate \$1 of your taxes for this fund?"
	Since Anna does not owe any Use Tax, "get the red out" of NJ 1040 Line 44
	Both children are covered by health insurance, so no need to use NJ Dependents Worksheet
	The rules to qualify as a dependent are different than the rules to qualify for EIC. Therefore, even though James is a non-dependent on Main Info screen (code 0), he can be used to qualify for EIC. However, TW does not carry non-dependent

	info through from the Federal return to the NJ Dependents Worksheet. Therefore, you have to manually add James' info to the NJ Dependents Worksheet. In TW, the fields on that worksheet are considered calculated fields, so you have to override the fields (F8) before TW will allow you to enter James' name, SS # and birth year. If you do not manually add this data, taxpayer may receive a letter disallowing EIC or reducing amount
Note 12 Rent	Enter \$12,000 of rent (\$1,000 per month X 12) on NJ 1040 Page 4 Worksheet F Line. TW will calculate the 18% of rent that can be claimed as property tax (\$2,160). TW will also calculate that taxpayer receives a greater benefit by claiming property tax credit of \$50 on Line 48 than by claiming property tax deduction on Line 36c
	Since Anna rents, do not check box on NJ 1040 Line 36b that says "Check here if on October 1, 2011 you were a New Jersey homeowner."
Note 4 IRA distribution	Once you enter info for a 1099-R IRA distribution into TW, TW automatically populates an NJ IRA Worksheet in Forms Tree. However, it does not carry the income through to NJ 1040 until NJ IRA Worksheet is completed. Enter 1 as "copy number of the IRA you want to use this worksheet for" at top of IRA Worksheet. Since Anna has no records of her contributions or IRA balance, you cannot fill out the rest of worksheet. Just "get the red out."
Run Diagnostics	Error says "The question 'Do you want to electronically file this return?' on the New Jersey return requires a Yes or No response." Must answer No because we are past the 10/20/2012 final date for e-filing a 2011 return. If we were not using 2011 software, you would answer Yes
Test as Tuition & Fees deduction	Note AGI (\$38,439) & Refund Monitor (\$39) with word processing course listed as business expense. Then delete the course from business expenses on Sch C Part V
	Link from 1040 Line 34 to 1040 Worksheet 2. Enter course expenses \$575 next to Anna
	TW calculates deduction on Line 3 & transfers to 1040 Line 34
	Compare AGI (\$38,398) & Refund Monitor (\$-15) to results from Business Expense. AGI decreases because this is an adjustment to income. It also changes because the income on Schedule C increases when you delete the word processing expense
	Delete Tuition & Fees deduction from 1040 Worksheet 2
Test as Lifetime Learning Credit	Link from 1040 Line 49 to Form 8863
	Enter Anna's info on Line 3
	TW calculates Lifetime Learning Credit on Line 6 (\$115) & transfers to 1040 Line 49
	Compare AGI (\$38,973) & Refund Monitor (\$-116) to results from Business Expense & Tuition & Fees deduction
	Business Expense result is most beneficial for taxpayer, so delete Form 8863 & re-enter data as business expense
American Opportunity Credit	Anna is not eligible to claim the word processing course as an AOC because she is not pursuing a degree program

Note 7 Refund Check	On NJ DD Worksheet, check line that says "Check here to have a refund check mailed to you"
Run Diagnostics	Correct any errors shown