

2012 IMPORTANT LEARNING POINTS FOR STERLING PROBLEM

DOCUMENT	LEARNING POINTS TO CHECK & EMPHASIZE
Main Info screen	Page is considered blind. Make sure "Blind" box is checked for spouse in Taxpayer Information section
	According to chart in Pub 4012 on Page C-4, Samantha Summers meets all criteria for qualifying child for dependency. Ensure she is listed as dependent. Code can be 1-Your Child Who Lives with You. Samantha's income is not actually listed anywhere on return
	Presidential election campaign boxes should not be checked
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
1099-INT Chapman Federal S&L Association 1099-INT New City Bank	Enter taxable interest in Box 1 on Interest Statement. TW transfers to Sch B & 1040 Line 8a
1099-DIV Bridgeport Fund	Enter Ordinary & Qualified Dividends on Dividend Statement. TW transfers to Sch B & 1040 Lines 9a & 9b
	Enter Capital Gains Distributions on Dividend Statement so they flow through to Schedule D
	Enter Foreign Tax Paid in box at center of the first paragraph on Form 1116 now, so you don't forget (even though this is not in order of 1040). Do not enter any other data on Form 1116, even though some lines are in red
1099-R Averell Pension Fund	Check Taxable Amount Not Determined box
	<p>Complete Simplified Method Worksheet to determine taxable amount of distribution</p> <p>Enter the following:</p> <p>Line 1: Cost in the plan at annuity starting date = \$5,864 (from Box 9b)</p> <p>Line 2: Do not have to enter age of primary annuitant <u>at annuity starting date</u> since this is a joint & survivor plan. Instead, check joint & survivor plan box & enter combined ages <u>at annuity starting date</u> (1/1/2008). Steven was 74, Page was 56, so total is 130. Click box for 121-130</p> <p>TW calculates an exclusion of \$18.92 per month</p> <p>Line 4: # of months for which payments were received this year = 12</p> <p>Line 5: Amount received tax free in prior years = \$681 (Amount will be \$227 (12 x \$18.92) every year of payout (\$5,864/227 = 25.83 years of payout. The 26th year would be a partial payout). Therefore, \$227 tax free for 2008, 2009 & 2010 = \$681</p> <p>Line 6: Exclusion (for 2011) = \$227</p> <p>Line 7: Remaining cost in pension = \$4,956 (\$5,864 – 681 – 227)</p>
1099-R Scripps Investment Partners	Click on + sign next to 1099-R in Forms Tree to get a second 1099-R form
	Taxable amount is given in Box 2a, so Simplified Method Worksheet is

	not needed
SSA-1099 Page	Link from 1040 Line 20 to 1040 Worksheet 1
	Enter full amount of SS Net Benefits (Box 5) under Spouse column. Deal with lump sum payment later. If SS is not taxable after all other income is entered, would not have to deal with lump sum election
	Link to scratch pad to enter Medicare Parts B (\$1,385) & D (\$810). TW will transfer total (\$2,195) to Schedule A Detail
SSA – 1099 Steven	Same as Page, but enter under Taxpayer column
Chapman stock (Note 4)	Enter all stock sales on Capital Gain/Loss Transactions Worksheet Enter the following: Description: 100 sh Chapman 1099 column: C – no 1099-B received Date acquired: 12/31/1983 (When no specific date is given, I use last day of year just in case it would affect short or long term designation. Makes no difference in this case) Date sold: 03/23/2011 Sales price: \$23,789 Cost: \$12,000 Gain/Loss: \$11,789 (TW calculates) Short/Long Term: L (TW determines)
	TW transfers info to Form 8949 for Long-Term Code C & then transfers totals to Sch D Line 10
Note 11 NJ Tax paid in 2011 for 2010	Add worksheet for Estimated Tax Payments Made for the Current Year (F/S Tax Paid)
	Enter the amount Sterlings paid to NJ in 2011 when they filed 2010 tax return (\$203) in the NJ section on line that states “NJ state &/or local balance due from previous years’ returns paid in 2011”
	Since these taxes were paid in 2011, TW transfers that amount to Schedule A Line 5a State & Local Taxes. However, since the payment was for 2010 taxes, TW will not transfer that amount to NJ 1040 Line 49
1040 Page 1 still red (Note 6)	Ensure NO to question in box above Line 10
1040 Page 2 still red (Intake/Interview Sheet)	Answer NO to question at bottom of 1040 Page 2, “Do you want your balance withdrawn from your checking or savings account by an electronic funds transfer?”
Sch B still red (Note 12)	Ensure that questions are answered at the bottom of Schedule B
Note 2 - Sch EIC	The Sterlings are not eligible for EIC because their investment income is > \$3,150
	Although it does not matter in this problem, Note 2 says that Samantha is an invalid. Therefore, she could be considered a qualifying child for EIC purposes. You would answer YES to Question 4b on Sch EIC (“Was the child permanently & totally disabled during 2011?”). You would then answer the questions on Line 7 (YES), Line 8 (YES), Line 9 (NO) & Line 10 (YES) on Sch EIC Worksheet to determine if she qualifies
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
SS Lump Sum Payment (Note 9)	Based on the rest of their income, part of the Sterlings' SS income is taxable. Therefore, you should re-calculate taxable amount using Lump Sum Election method to see if result is more favorable
	When you entered the Sterlings' SS income before on 1040 Worksheet 1, TW had calculated the taxable amount of the total SS (including the lump sum) if all claimed using 2011 AGI & posted it on line that states: "Taxable SS & RR tier 1 – Minimum of A or B" (\$27,642). It transferred that same amount to 1040 Line 20b
	Calculate taxable amount using lump sum election method to see if it is more beneficial to apply prior years' lump sums against prior years' AGI
	In Lump Sum Payment section at bottom of worksheet, enter "Gross SS amount that was attributable to 2011 (\$15,972 for Steven; \$8,820 for Page-in Description box of SSA-1099 = \$24,792). TW calculates the "taxable amount of the 2011 benefit" alone as \$16,708
	<p>Link to Lump Sum Worksheet from line that states "Amounts taxable from previous years." Must do a separate worksheet for each prior year involved (2010, 2009, 2008). Use + sign next to Lump Sum Wkt in Forms Tree to get additional worksheets</p> <p>Enter the following from prior year tax returns: Top of worksheet: Earlier year for which benefits were received in 2011: 2010 or 2009 or 2008 Filing status for earlier years MFJ Line 1: SS received & reported in prior year - \$15,972 for Steven SS received for prior year in 2011 (from SSA-1099A Description box) Line 3: AGI for prior year Line 4: Adjustments claimed in prior year Line 5: Tax-exempt interest received in prior year Line 7: Taxable SS benefits reported on prior year return</p> <p>Line 21: TW will calculate additional taxable SS benefits if lump sum payment was applied to prior year's return</p>
	TW will add the total taxable from prior years (\$7,074) to the taxable amount of 2011 benefits (\$16,708) on bottom portion of 1040 Worksheet 1. The total taxable benefits using the lump sum election method will be posted on bottom line (\$23,782)
	TW will compare the taxable SS benefits using lump sum election method (\$23,782) to taxable SS using 2011 figures only (\$27,642). Since the lump sum election amount is lower, TW will transfer that amount to 1040 Line 20b & check LSE (lump sum election)
	On taxprep4free.org website, there is a good reference document on Lump Sum Payments on the Preparers Page under Special Topics
Note 10 Municipality Code	Enter Municipality Code for Wharton (1439) since that is where they are living now. Can obtain from NJ 1040 instruction booklet or from link on

	Preparer page on taxprep4free.org website
Notes 5 Gubernatorial Elections Fund	Check NO to Gubernatorial Elections Fund question "Do you wish to designate \$1 of your taxes for this fund?"
Note 13 Use Tax	Based on Sterlings' NJ Gross Income on NJ 1040 Line 28, the Estimated Use Tax Chart on Page 39 on NJ 1040 booklet shows they would owe \$22 in use tax. Can enter that amount on scratch pad off NJ 1040 Line 44. You can also use chart on page 12 of NJ Special Handling document on taxpre4free.org website. That tells you to enter \$314 on line for Out-of-State Purchases. TW will then calculate the \$22 of use tax
Note 10 Rent	Using a scratch pad, enter 6 months of rent at \$1,000 per month & 6 months at \$1,100 per month for a total of \$12,600 on NJ 1040 Page 4 Worksheet F Line 1. Although the Sterlings paid rent on 2 apartments in June & July, they can only claim the rent for one - their main residence. Therefore, the rent for June is \$1,000 in Dover & \$1,100 for July in Wharton. TW will calculate the 18% of rent that can be claimed as property tax (\$2,268). 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 the Sterlings rent, 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 14 Refund Check	On NJ DD Worksheet, check line that says "Check here to have a refund check mailed to you"
Run Diagnostics	No errors shown