

PP11-02 – TWO NJ Special Handling TY2011

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Federal Return Issues

❖ Do not want to include NJ Return at all

- **TWO:** Main Info, State Information section
 - Check box labeled “If you are not preparing a state return, check here” and
 - Remove NJ from “Full year resident” box on next line
- See NJ Issues when do not want to e-file NJ return, but do want printed NJ return

❖ W-2 NJ Special Taxes (Unemployment, Disability, and Family Leave)

- **Tax Law:** Federal – allowable as part of Sch A, line 5a (unless Private Plan)
- **TWO** W-2 worksheet box 14:
 - Special Codes:
 - Use **NJSUI** for Unemployment (UI / WF / SWF) – flows to Sch A automatically
 - Use **NJSDI** for Disability (DI) – flows to Sch A automatically
 - Use **NJFLI** for Family Leave (FL / FLI) – flows to Sch A automatically
 - If Private Plan (PP#) then do NOT use above codes because not deductible on Sch A (e.g. use **NJSDIPP** for Disability Private Plan amount)
 - ◆ (See also NJ 2450 Handling below)
 - Other amounts in box 14 (e.g. 414H / PERS) – include, but do not affect TWO calculations
 - UI, DI, FLI amounts may also appear in or below box 19 / 20 on W-2 paper form

❖ US Savings bonds or other Federal obligations (1099-INT Box 3)

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** Interest Stmt –
 - Amount in Box 1 or 3 amount column
 - “-“ in State adjust + / - column and Amount in State adjust Amount column

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❖ Exempt bond interest (1099-INT Box 8)

- **Tax Law:** Federal – not taxed; NJ – taxability varies
- **TWO:** Interest Stmt –
 - “E” in NAEOB column and Amount in NAEOB Amount column
 - If NOT exempt in NJ (e.g. Municipal bond from another state), then also enter
 - “+” in State adjust + / - column and Amount in State adjust Amount column

❖ State Income Tax Refunds (Form 1099-G)

- **Tax Law:** Federal – may be taxed; NJ – not taxed
- **TWO:**
 - Ignore if did not itemize last year or used Sales Tax (line 5b) instead of Income Tax (line 5a) last year
 - If have prior year return or carry forward (i.e. have prior year data) then
 - Link to State Tax Refund Worksheet from 1040 line 10 to enter amount, then fill in other info on worksheet to determine if whole refund is taxable (it usually is)
 - Otherwise, if may have itemized last year and missing prior year return, then enter amount directly on 1040 line 10

❖ Capital Gains on NJ Exempt Obligations

- **Tax Law:**
 - Federal – taxed;
 - NJ – See NJ Bulletin GIT-5 for list and taxability of interest or gains
 - Available at: <http://www.state.nj.us/treasury/taxation/publit1.shtml>
- **TWO:**
 - Federal – Enter on Capital Gains worksheet as usual
 - NJ – use Scratch Pad to adjust on NJ Sch B line 3

❖ RRB Tier 2 (1099-RRB)

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** 1099-R Worksheet – Check Railroad retirement (near Box 12 & 14)

❖ Military Pensions (1099-R from Defense Finance & Accounting SVC)

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** 1099-R Worksheet – Check Box 2 (near Box 10 & 13)

❖ Disability Pension (1099-R code 3 AND TP is disabled)

- **Tax Law:**
 - Federal – Line 7 if under “minimum retirement age” / Line 16 otherwise;
 - NJ: Not taxed if under 65 / Taxed otherwise
- **TWO:** 1099-R Worksheet – If under “minimum retirement age” then check box labeled “Check if disability and taxpayer is disabled” (under Box 7 & 8)

❖ Unemployment (1099-G)

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** 1099-G Worksheet – No special action required

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❖ NJ Lottery (W-2G from NJ Lottery Board)

- **Tax Law:** Federal – taxed; NJ – taxed if over 10,000 / Not taxed if 10,000 or under
- **TWO:** W-2G Worksheet – If less than or equal to 10,000 then check box labeled “See F-1 Help on the state return for the use of this box Instructions vary by state” (bottom near Box 13)
- (Don’t forget to enter losses in box labeled “Gambling losses to be transferred to Schedule A” – even if not itemizing because net amount used on NJ return)

❖ Federal pre-tax / NJ after-tax medical (e.g. cafeteria plan on W-2)

- Do NOT enter on Federal Sch A
- May need to look at 12/31 pay stub to confirm amount is medical / dental (not child care, health club, or other)
- See NJ Issues for handling on NJ-1040 line 30

❖ Property Tax

- **Tax Law:** Federal – deduction allowed for multiple properties (Principal Residence not relevant); NJ – deduction/credit only allowed for Principal Residence (in NJ)
- **TWO:**
 - **Problem: Taxpayers may bring various kinds of documentation for their property taxes paid – figuring the right amount to enter depends on what documentation the taxpayer has:**
 - See page “How to Calculate Property tax paid on Principal Residence”

❖ Property Tax Rebate (PTR) and/or Homestead Benefit

- **Tax Law:** Federal – Recovery amounts must be included on return, but are allowable on either Sch A or line 21; NJ – do not include at all
- **TWO:**
 - **Problem: Figuring whether a recovery needs to be accounted for and where to enter it, if so, is tricky:**
 - See page “How and Whether to Handle NJ Property Tax Recoveries on Federal Return”

❖ NJ Income Tax Payments (other than withholding)

- **Tax Law:** Federal – Payments apply to Federal tax year in which payments made (cash basis)
- **TWO:** See F/S Tax Paid (NJ Section) page
 - Amount applied from previous year’s NJ-1040
 - NJ Estimated payments (check * column if 4th payment < Jan 1)
 - NJ Amount due (and paid) from prior year NJ return
 - NJ Estimated payment from prior year (if >= Jan 1)

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NJ Return Issues

❖ NJ-1040 Pg1

- **County/Municipality Code** (look in NJ-1040 Instructions or use State Help to lookup codes)
- Make sure VITA or TCE box is checked

❖ NJ-1040 Pg3

- **Line 11** (Exemptions) – enter count of dependents attending college (note age < 22 and other important conditions apply – see NJ-1040 Instructions for line 11)
- **Line 13** (Dependents) – be sure to link to NJ Dependent worksheet to check health insurance boxes if applicable
 - **If have any EIC qualifying dependents with Code=0 on Main Info** then need to add these dependents manually to NJ Dep Wkt (see below)
- Gubernatorial Elections Fund – check according to TP instructions
- **Line 18** (Net gains ...) – May need to adjust for NJ exempt securities (use Scratch Pad on NJ Sch B line 3)
- **Line 19** (Pensions, ...) – May need to adjust for 3-year rule pensions (see NJ Three Year rule page)
- **Line 25** (Other) – If property tax refund(s) or 1099-C income were added on federal 1040 line 21, then need to reverse because not taxable in NJ:
 - Link to NJ Other Income Statement (do not use regular scratch pad)
 - If only one amount to reverse:
 - Negative amount in section F corresponding to Property Tax or 1099-C amount carried from federal line 21. Document using associated text box
 - If more than one amount to reverse:
 - Attach Scratch pad to section F amount and include negative amount and description for each
- **Line 27a** (Pension Exclusion) – May need to adjust for Three Year Rule pensions (see NJ Three Year Rule page)
- **Line 30** (Medical) – If had Federal pre-tax / NJ after-tax medical (e.g. cafeteria plan on W-2) then
 - If NJ-1040 line 30 already > 0 then add Scratch pad
 - Plus NJ after-tax amount
 - If NJ-1040 line 30 is zero then add Scratch pad
 - Plus Amount from Federal Sch A Medical (if any)
 - Plus NJ after-tax amount
 - Minus 2% of amount on NJ-1040 line 28 (Gross Income)
 - Note: if result is < 0 then delete Scratch Pad – No NJ Medical deduction
- **Line 36a** (Total property taxes paid)
 - Adjust, if necessary, to be total property taxes (before any Homestead Benefit credit)
 - e.g. if PTR Base amount used on Worksheet F, then should adjust
- **Line 36b** (Homeowner on Oct. 1) – Check as appropriate
- **Line 44** (Use Tax) – Explain to TP and fill in as appropriate
 - See NJ-1040 instructions for more information
 - See NJ Use Tax page for amounts to enter into TW in order to generate NJ “standard” amounts.
 - Don’t forget to add amounts for purchases > \$1,000 to “standard” amount

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❖ NJ-1040 Pg4

- Line 49 (NJ Estimated Payments)
 - (See F/S Tax Paid page)

❖ NJ-1040 Pg4 – Worksheet F, Line 1

- This can be confusing - See page “New Jersey Property Tax Deduction / Credit”

❖ NJ-1040 Pg4 – Do you want to electronically file this return?

- Check No if there is no need to file NJ-1040 but TP wants printout
 - Be sure to mark printed copy “No Need to File – Info Copy Only”
- See Federal Issues if do not want to include NJ return at all

❖ NJ Dep Wkt handling

- Check box for any dependents who do NOT have health insurance
- Must manually add (via override) any EIC qualifying dependents that were listed on Main Info with Code=0 (Non-Dependents)

❖ NJ IRA Wkt handling

- Must have one NJ IRA Wkt for each IRA distribution
 - Use “+” in tree to add and enter 1, 2, 3, ... in second box at top
- Enter info for after-tax contributions (if known); take red out otherwise

❖ NJ 2450 handling

- Should automatically get added to NJ tree (if more than one W-2)
 - Note: There is separate form for TP and SP
- Add any Private Plan (PP#) amounts via Scratch Pad linked from appropriate box
 - Be sure to also fill in Plan number box

❖ NJ-1040-H (Not in TaxWise – must file manually)

- See page “New Jersey Property Tax Deduction / Credit” and NJ-1040 Instructions page 49

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How to Calculate Property tax paid on Principal Residence (Sch A, line 6, box 3)

Source	Sch A, line 6, box 3 Amount
Postcard from Assessor's office	Amount on postcard
Form 1098 showing property taxes paid	Amount on Form 1098 plus(+) any Homestead Benefit amount for 2009 applied as a credit to May 2011 tax bill (lookup if necessary)
TP record of property tax payments (e.g. cancelled checks)	TP record amount plus(+) any Homestead Benefit amount for 2009 applied as a credit to May 2011 tax bill (lookup if necessary)
Tax bills for 2011 (last two quarters of 2011 bill and first two quarters of 2012 bill)	Total of calendar 2011 amounts [Note: ignore any Homestead Benefit adjustments/credits]
PTR-1A/2A (2011) form filled out by tax office	Amount from PTR-1A/2A (2011) line 2 "Total 2011 taxes paid by Homeowner(s) by 6/1/12" plus(+) amount from line 6 "Homestead Benefit (Credit)" [Note: this may need to be apportioned if there are multiple owners]
None of the above	TP should go home to get one of the above or contact tax office to get information on property taxes paid in 2011

Note 1: Homestead Benefits received as a check do not count as being applied as credit to municipal bill.

Note 2: See separate page for instructions on how to lookup Homestead Benefit amount.

Note 3: Only enter Property taxes paid on Principal Residence on Sch A, line 6, box 3. Property taxes paid on property other than Principal Residence are still deductible on Sch A, but should be entered on line 6, box 4 (instead of box 3).

Note 4: If using Postcard, Tax bills, or PTR, then any Property tax amounts billed for 2011, but not actually paid in 2011 should be subtracted from the above amount.

Note 5: Any Property tax payments made in 2011 for prior years and not already included in above amount should be added.

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How and Whether to Handle NJ Property Tax Recoveries on Federal Return

(using TaxWise – Sch A, line 6, box 4 – or – Form 1040, line 21)

Step	Question? / Action	Result
1a	Did TP receive PTR refund in 2011 and Did TP itemize deductions in 2010 (if unsure whether itemized in 2010, discuss with Site Coordinator)?	Yes: PTR refund is a recovery – Next step No: No PTR recovery amount – Next step
1b	Did TP receive Homestead Benefit (either as credit applied to 2011 tax bill or as check received in 2011) (lookup if necessary) and Did TP itemize deductions in 2009 (if unsure if itemized in 2009, discuss with Site Coordinator)? [Note: Homestead Benefits received in 2011 were applied for in 2010, but were for taxes actually paid in 2009]	Yes: Homestead Benefit is a recovery – Next step No: No Homestead Benefit recovery amount – Next step
2	Does TP have PTR and/or Homestead Benefit recovery amount from above steps?	Yes: Next step No: Done
3	Is TP itemizing this year? (See Note 1)	Yes: Next step No: Go to Step 8
4	Attach a scratch pad to Sch A, line 6, box 4 with 2011 PTR refund amount and/or 2011 Homestead Benefit amount as negative number(s)	Next step
5	Is Sch A, line 6 total (all boxes) < 0?	Yes: Go to Step 7 No: Next step
6	Is Sch A, line 29 (total) still greater than Standard Deduction (i.e. is TP still itemizing?)	Yes: Recoveries handled on Sch A – Done No: Next step
7	Remove 2011 PTR and/or 2011 Homestead Benefit scratch pad from Sch A, line 6, box 4.	Next step
8	Do you have details from 2010 return necessary to complete St Tax Refund worksheet?	Yes: Next step No: Go to Step 10
9	Add 2011 PTR refund amount (if any) to St Tax Refund worksheet line 4 (use scratch pad to document); fill in other required boxes on St Tax Refund worksheet Add 2011 Homestead Benefit amount (if any) to 1040, line 21 (using Line 21 worksheet)	Go to Step 11
10	Add 2011 PTR refund amount and/or 2011 Homestead Benefit amount to 1040, line 21 (using Line 21 worksheet)	Go to Step 11
11	Any property tax recovery amounts added to federal 1040, line 21 should be removed from NJ-1040, line 25	Done

Note 1: Complete all federal income and regular Sch A entries before following this procedure.

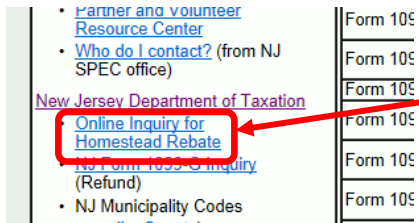
Note 2: See separate page for instructions on how to lookup Homestead Benefit amount.

Note 3: If using Line 21 worksheet and TP also had Gambling Winnings, then you will need to make sure Gambling Winnings show up first on Line 21 worksheet.

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How to Lookup Homestead Benefit received in 2011

New Jersey property tax payers who qualified for a property tax benefit on their property taxes paid in 2009 were able to apply in 2010 for their Homestead Benefit and their Homestead Benefit was ultimately received as an adjustment on May 1, 2011 to their local property tax due. The taxpayer may bring in a copy of their May 1, 2011 tax bill that will show the adjustment amount. If they do not know the amount, there is a lookup tool available on the NJ DoT (New Jersey Division of Taxation) website. From the TaxPrep4Free.org Preparer page there is a link to the NJ DoT lookup tool.



• [Farmer and volunteer Resource Center](#)
• [Who do I contact?](#) (from NJ SPEC office)
New Jersey Department of Taxation
• [Online Inquiry for Homestead Rebate](#)
• [No Form 1099-G Inquiry \(Refund\)](#)
• [NJ Municipality Codes](#)

Form 1099
Form 1099
Form 1099
Form 1099
Form 1099
Form 1099

Click on the link on the TaxPrep4Free.org Preparer page

Click on Online Inquiry

Homestead Benefit Status Inquiry

You can get information on the status (amount) of your homestead benefit either online or by phone.

- [Online Inquiry](#) (2010, 2009, and 2008 benefits)
- **Phone Inquiry: 1-877-658-2972** (toll-free within NJ, NY, PA, DE, and MD). (2010 benefit only)

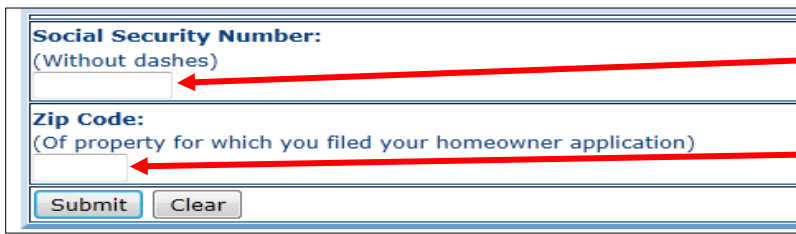


Type of application filed **Homeowner** Tenant

Year 2010 **2009** 2008

No rebates will be issued to tenants for 2009 and 2010.

Select **Homeowner** and **2009** from the first page of the inquiry then click Continue

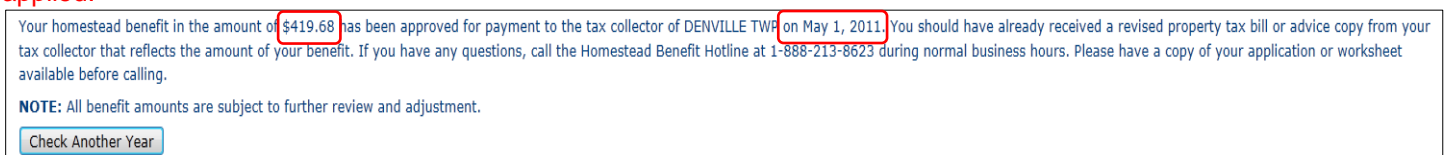


Social Security Number:
(Without dashes)

Zip Code:
(Of property for which you filed your homeowner application)

On the second screen enter the TP **SSN** and **Zip Code** and then click Submit

A screen similar to the one below will display the amount of the Homestead Benefit approved and when it was applied.



Your homestead benefit in the amount of **\$419.68** has been approved for payment to the tax collector of DENVILLE TWP on May 1, 2011. You should have already received a revised property tax bill or advice copy from your tax collector that reflects the amount of your benefit. If you have any questions, call the Homestead Benefit Hotline at 1-888-213-8623 during normal business hours. Please have a copy of your application or worksheet available before calling.

NOTE: All benefit amounts are subject to further review and adjustment.

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F/S Tax Paid (State section)

Must link from line 62 on Federal 1040 Pg2 (Cannot link from NJ 1040 Pg4, Line 49)

(If return is carried forward from previous year, then some (but not all) values will be filled in automatically.)

Used for:

- 2010 NJ overpayment applied to 2011 tax (2010 NJ 1040, Line 56)
- 2010 (or earlier) NJ balance due actually paid in 2011
- 2010 NJ estimated payment if made in January 2011
- 2011 NJ estimated payments (all – even if made in January 2012)

Values entered here will flow to federal Sch A, Line 5a and/or NJ 1040 Pg4, Line 49

State Estimated Tax Payments

- ** The day listed in the date of payment section is the due date for most state estimated tax payments. If your state has different due dates, disregard the date suggested. If payment 1 was paid on or before the date due for payment 1, enter it in payment 1, etc.
- * Check the * column, if payment 4 was paid before 01/01/2011.

Taxpayer, Joint, or Combined State Return

For a spouse filing a married separate state return, or a second full year resident state, page down to list the estimated payments made to that state. Do not override the state column.

** Date of Payment

State	Credit from last year	04/15/2011 Amount 1	06/15/2011 Amount 2	09/15/2011 Amount 3	01/15/2012 Amount 4	*	Total
NJ	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0

NJ	state and/or local balance due from previous years' returns paid in 2011. Include amounts paid with a 2010 extension paid in 2011	T SJ:	0
	state and/or local balance due from previous years' returns paid in 2011. Include amounts paid with a 2010 extension paid in 2011	T SJ:	0
NJ	last state estimate payment for 2010 paid in 2011 (due January 15, 2011)	T SJ:	0
	last state estimate payment for 2010 paid in 2011 (due January 15, 2011)	T SJ:	0

2010 NJ over-payment applied to 2011 tax

NJ estimated payments for 2011

Check if amount 4 was made in 2011

NJ balance due for 2010 (or earlier) that was paid in 2011

NJ Estimated Payment for 2010 that was made in 2011

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New Jersey Property Tax Deduction / Credit (Worksheet F and/or NJ-1040-H)

Part 1: When to fill out NJ-1040 Worksheet F?	
Question?	Answer: What to do...
Is TP required to file NJ return (i.e. NJ-1040 line 28 > 20,000 for MFJ/HOH/QW (10,000 for Single/MFS)?)	Yes: <u>Fill out Worksheet F</u> – go to Part 2 No: Next Step
Did TP own principal residence on Oct 1, 2011?	Yes: <u>Do NOT fill out Worksheet F</u> even if filing NJ return; TP will get credit as part of Homestead Benefit - Done No: Next Step
Was TP under age 65 and not Blind/Disabled on Dec 31, 2011?	Yes: <u>Do NOT fill out Worksheet F</u> ; TP not eligible for credit - Done No: Next Step
Is TP e-filing federal return or filing NJ return for some other reason (e.g. to get EIC or refund of withholding)?	Yes: <u>Fill out Worksheet F</u> – go to Part 2 No: <u>Fill out and file NJ-1040-H</u> (paper only) – Done

Part 2: How to fill out NJ-1040 Worksheet F (if and only if required by procedure above)	
Column A box	What to fill in
First box (Rent you paid in 2011):	Rent paid for principal residence [Note: Rental unit must pay property taxes and unit must have own kitchen and bath]
Second box (Property taxes you paid in 2011):	If filing PTR-1 (or PTR-2) for 2011, then use PTR base amount [Note: if using TW, then line 36a will need to be adjusted] Otherwise use amount carried from Sch A (assuming Sch A line 6 box 3 filled in using instructions on separate page)

Note 1: It is ok to have both rent and property tax on Worksheet F, but only one dwelling can qualify as principal residence on any day. (i.e. cannot include property tax / rent paid on more than one dwelling for same day)

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NJ Three Year Rule

Tax Law: (see NJ-1040 Instructions or NJ GIT-1 for more detail)

“If you will recover your contributions within three years from the date you receive the first payment from the plan, and both you **and** your employer contributed to the plan, you may use the Three-Year Rule Method to determine your New Jersey taxable pension income. The Three-Year Rule allows you to exclude your pension and annuity payments from gross income until the payments you receive equal your contributions to the plan. Until that time, the amounts you receive, because they are considered your contributions, are not taxable and should not be reported on your return. Once you have received (recovered) an amount equal to the amount you contributed, the payments you receive are fully taxable. Since the Three-Year Rule has been repealed for Federal income tax purposes, if you retired after July 1, 1986, the taxable amount of pension or annuity that you report on your New Jersey return when using this method will differ from the amount you report on your Federal return.”

Adjusting New Jersey Return for the Three Year Rule

- NJ-1040 line 19 (Pensions...) – add Scratch pad
 - Plus difference between federal gross amount and federal taxable amount (all years)
 - Minus Three Year Rule amount (only until contribution is recovered)

- NJ-1040 line 27a (Pension Exclusion)
 - Calculated by TW from federal taxable amount, not amount from NJ-1040 line 19, so line 27a amount may be wrong
 - While contribution is being recovered and line 27a amount is greater than line 19 amount
 - Add Scratch Pad to adjust line 27a amount down to line 19 amount
 - After contribution is recovered and line 27a amount is less than line 19 amount
 - Add Scratch Pad to adjust line 27a amount up to line 19 amount

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NJ-1040 Line 44 (Use Tax) Table

For more detail, see NJ-1040 Instructions for Line 44.

If you want the amount in the “Use Tax” column to be included on line 44, then enter the amount in the “TaxWise” column into the “Enter the amount of out-of-state purchases” box by line 44.

<u>NJ-1040 line 44</u>		
Estimated Use Tax Chart (for Step 1 computation only)		
If your NJ Gross Income is:	Use Tax	TaxWise
up to \$15,000	7	100
\$15,001 - \$30,000	22	314
\$30,001 - \$50,000	32	457
\$50,001 - \$75,000	42	600
\$75,001 - \$100,000	53	757
\$100,001 - \$150,000	67	957
\$150,001 - \$200,000	85	1,214
\$200,001 or over	.0426% of income or \$247, whichever is less	

Note: NJ Gross Income is on NJ-1040, line 28.

Note: Large individual purchases (> \$1,000) need to be added to above amount.