

PP13-03 – Pub 4012 Notes TY2013

Page	Title/Area	What to Fix
14	Important Tax Law Changes for 2013	<p>The following items were included in the L&LT What's New lesson, but were left off the list of Important Tax Law Changes for 2013:</p> <p>Same-Sex Marriage</p> <p>The Internal Revenue Service issued ruling IR-2013-72, which ruled that same-sex couples, legally married in jurisdictions that recognize their marriages, will be treated as married for federal tax purposes. The ruling applies regardless of whether the couple lives in a jurisdiction that recognizes same-sex marriage or a jurisdiction that does not recognize same-sex marriage.</p> <p>Same-sex couples will be treated as married for all federal tax purposes, including income and gift and estate taxes. The ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions, taking the standard deduction, employee benefits, contributing to an IRA and claiming the earned income tax credit or child tax credit.</p> <p>Any same-sex marriage legally entered into in one of the 50 states, the District of Columbia, a U.S. territory or a foreign country will be covered by the ruling. However, the ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law.</p> <p>Legally-married same-sex couples generally must file their 2013 federal income tax return using either the Married Filing Jointly or Married Filing Separately filing status.</p> <p>Individuals who were in same-sex marriages may, but are not required to, file original or amended returns choosing to be treated as married for federal tax purposes for one or more prior tax years still open under the statute of limitations.</p> <p>Net Investment Income Tax</p> <p>A net investment income tax applies to individuals, estates and trusts that have certain investment income above certain threshold amounts. This topic is out of scope for the VITA/TCE programs. Taxpayers affected by the net investment income tax should be referred to a professional tax preparer. Additional information can be found on www.irs.gov.</p>
A-1	Chart A – For Most People Who Must File	<p>Add note at bottom: “Generally, the IRS and NJ Div. of Tax are encouraging the e-filing of returns even when there is no need to file as a measure of protection against Identity Theft. You may instead use Form 9452 – Filing Assistance Program to document that a taxpayer has No Need To File a Federal return. Be sure to review instructions on page 2 of 9452 to assure eligibility.”</p>
A-3	Chart C – Other Situations When You Must File	<p>Add #5. “You have a capital gain and get a 1099-B and the gross proceeds plus other income exceeds the filing limits in Chart A”.</p>

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C-3	Overview of Rules for Claiming an Exemption for a Dependent	Replace the second bullet at the top of the page with: <ul style="list-style-type: none"> • You cannot claim a married person who files a joint return as a dependent unless that joint return is filed only to claim a refund of withheld income tax or estimated tax paid.
		Under Qualifying Child step 5, replace the information in parentheses with: “unless that joint return is filed only to claim a refund of withheld income tax or estimated tax paid” .
C-11	Main Information Screen – Continued	In screenshot, under Taxpayer Information, change Date of death from “2012 or 2013” to “2013 or 2014” and in 5 th Side Note – After (“Complete for deceased taxpayer”) add: “together with Name Line 2 (see Page C-10 Note 1)”
		In screenshot, Line 5 "Qualifying widow(er) with dependent child": Change Year spouse died to "2011 and 2012" (rather than 2010 and 2011).
C-13	Main Information Screen – Continued	Add notes at bottom of page: <ul style="list-style-type: none"> - “Data can be entered in any sequence (See Best Practices for exceptions)” - “Linking: <ul style="list-style-type: none"> - Scratch Pad <u>must</u> be added by linking - 1099-MISC should be added by linking from the box where the value should flow (depending on which box on 1099-MISC contains value). Always link for 1099-MISC rather than using “Add Form” to be sure you have selected the correct parent form. - Other linked forms may be added from the forms tree or “Add Form” tab.”
C-16	Taxpayer Identification No’s & Determining the Taxpayers Last Name	At end of last sentence under “Name Controls for Individual Tax Returns”: add “except for hyphens, which are allowed and should be included as shown on Social Security Card or ITIN card” .
D-3	Income Documents	Cross out table at top of the page entirely and add note: “See TaxPrep4Free Preparer page for where to enter information”
		Add to Note 3 at bottom of page: “Consult with your Local Coordinator before entering any K-1 data” .

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D-4	How/Where to Enter Income	Add side-note with arrow to Line 10: “NJ no longer sends out paper 1099-G forms for refunds – use the NJ Div. of Tax online 1099-G lookup tool (link available on TaxPrep4Free Preparer page).”
		Add side-note with arrow to Line 10: “If TP has state income tax refund and you do NOT have information from last year’s return, then just enter amount of refund directly in box 10”
		Line 12: Change side-note to read ‘Sch C’ (delete “Sch C-EZ”). Make same change in Note # 2 below.
		Line 17: Add side-note “Use Schedule E only for oil and gas lease royalties from a K-1 or oil and gas rent/leases from a 1099 MISC”
		Add after Footnote 1: “If Sales Tax deducted on Sch A in 2012, state refund is not taxable income in 2013.”
		Add note at bottom of page: “Line 21 – Link to 1040 Wkt 7 and from there link to: - 1099-MISC if income is in boxes 3 or 8 - W-2G (remember: if NJ lottery winnings less than or equal to \$10,000, place X in lower left box on W-2G screen)”
D-6	Form W-2 Instructions (cont.)	Delete arrow to Box 14 after 1 st side-note and add new note with arrow to Box 14: “(See NJ Help or NJ Special Handling for NJ Special Purpose Codes)”
D-7	Schedule B – Interest	Add note in right margin: “1099 INT with Foreign tax paid (Box 6); enter on Form 1116 (see page G-2).”
D-8	Interest Statement for Schedule B	Add note at top of page with arrow to “Payer” in screen shot: “Do not allow blank lines between entries on Interest Statement. Use Ctrl-R to remove a line.”
		Add note below screen shot of Sch B Interest Received: “Interest from Form K-1 may be entered directly on TW Interest Stmt. In “Payer” column, enter “K-1” and name of payer. DO NOT USE TAXWISE K-1 FORM. Consult with Local Coordinator.”
		O-OID: Add comment: “OID interest that is fully taxable, make no entry in NAEOB or NAEOB amount”
		Add note at bottom of page: “We should only be using the “E” code in the NAEOB column. If any other code is called for, discuss with Local Coordinator.”
D-9	Dividend Statement for Schedule B	Add note in top portion of screen shot with arrow to “Payer” column: “Do not allow blank lines between entries on Dividend Statement. Use Ctrl-R to remove a line.”
		Add note at bottom of page: “Dividends from Form K-1 may be entered directly on TW Dividend Statement. In “Payer” column, enter “K-1” and name of payer. DO NOT USE TAXWISE K-1 FORM.” Discuss with your Local Coordinator.
		Note 1 at bottom of page: “If foreign tax paid (box 6) etc, etc.” Add: “and enter only on Form 1116 (see page G-2).”
D-10	Schedule C-EZ Business Income	Add note at top of page that reads: “Use Schedule C for Business Income rather than Schedule C-EZ”

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D-11	Schedule C – Business Income, Page 1	Add note above screen shot: "If a taxpayer has more than one business, a separate Schedule C must be filed for each."
		Add note below screen shot that reads: "Enter automobile mileage on Sch C Page 2 Part IV for calculation of standard rate" .
		Add another note below screen shot that reads: "Itemize business expenses on Sch C Page 2 Part V (Other Expenses) for transfer to Sch C Page 1 Part II"
		Add note at bottom of page: "One or more Sch C's per taxpayer and one or more 1099-MISC per Sch C" .
D13	Schedule D – Capital Gain and Loss Transactions Worksheet	Add Note at top that reads: "Never enter directly to Sch D. Always use Cap Gains Wkt – except for: <ul style="list-style-type: none"> - carry-over losses which are entered directly on Lines 6 and/or 14, and - K-I capital gains which are entered directly on Lines 5 and/or 12 on Sch D"
		Note 2, Add to end of second sentence (before the reference to Pub 4895): "no matter when the property is sold"
		Note 2, Add to end of third sentence: "(This basis must be in the form of a letter or document from the estate of the decedent or on form 8939)"
D-17	Example: Applying Section 121 Exclusion to Capital Gains on Sale of Main Home	Code column (column F), change the "L" to "H" .
D-18	1099-R Codes for Box 7	Remove parenthetical comment for code Q "(required to file Form 5329)"
		On the OUT OF SCOPE (CONT) chart, add the following statement after codes J and T: "if taxable or partially taxable"
D-19	1099-R Pension and Annuity Income	In 4 th side-note in the right margin that reads: "Check if Code 3 is in Box 7 - person on disability, etc.." add "and makes amount tax exempt in NJ" at the end of the 2 nd sentence
D-20	1099-R Exclusion Worksheet (lower section of 1099-R	Add note at bottom of page with arrow to state adjustment boxes: "NJ State Adjustment Boxes: <ul style="list-style-type: none"> - Box 1 – Check for pensions or IRA withdrawals that do not qualify for NJ pension exclusion - Box 2 – Check for military pension (Defense Finance & Accounting Service) - Box 3 – Do Not use - Check Box for Railroad retirement if RRB pension."
D-22	Railroad Retirement, Civil Service, & Soc Sec Benefits	1: Form RRB-1099-R: Delete phrase " – if itemizing deductions" after "Sch A Detail" in instructions for RRB "Box 12 – Medicare Premium Total" - since medical insurance should always be entered on Sch A to flow to the NJ return whether itemizing or not.
		4: Form SSA-1099: Add 7 th bullet under Form SSA1099 – Soc Sec: "See Best Practices for how to enter multiple medical amounts (e.g. Medicare Part B and Part D)"
		Good idea to affix tab on this page for easy access. Instructions must be exactly followed to assure correct entry of Railroad Retirement (RRB) and Civil Service (CSA) pension data.

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D-24	Schedule E – Rental and Royalty Income and Loss (Limited)	Add note at top of page: “Use Schedule E only for oil and gas lease royalties from a K-1 or oil and gas rent/leases from a 1099 MISC (See Special Topic documents)” .
E-4	Student Loan Interest Deduction at a Glance	In forth row (Student qualifications), change 1 st bullet to read: “you, your spouse, or your dependent, or (your) dependent at the time the loan was made”.
E-5	Form 1040 – Adjustments to Income	Add note in right margin with arrow to Tuition and Fees Line 34: “Link to Form 1040 Wkt 2
		Add the words: “For IRA Deductions,” above Note at bottom of page that reads: “Taxpayers age must be 70 ½ etc, etc.”
		Add note at bottom of page: “Entries can be made on Lines 23, 25, 27, 30, 31, 32, 33, 34, & 35 (Jury duty pay turned in to your employer). All other lines are OUT OF SCOPE.”
F-4	Interview Tips – Itemized Deductions – continued	Step 14 – Change “\$500” to “\$5,000” in first sentence
		Step 14 – Change Note to read: “If between \$500 and \$5,000, use Form 8283” .
F-5	Schedule A – Itemized Deductions	After note with arrow to Line 5b: “Always Link to sales tax Wkt”, add: - “Use line 8 of Sales Tax Wkt for specific purchases made during current tax year; this includes motor vehicles (new or used), boats, aircraft, homes (including mobile and prefabricated), or home building material.”
		Add note with arrow to Line 6: “If deductions were itemized in prior year, and TP received PTR rebate, or if TP received Homestead Benefit and itemized two years ago, see NJ Special Handling for how/where to enter” .
F-6	Schedule A – Itemized Deductions (con’t)	Add Note at bottom of page: “Enter TOTAL gambling losses on W-2G for transfer to Sch A Line 28 (not shown above)
F-7	Itemized Deductions Detail Worksheet	Add following notes to bottom of page: - “Enter all allowable unreimbursed medical expenses on Sch A Detail Worksheet for transfer to NJ” - “Federal pre-tax medical costs should NOT be entered here. (See NJ Special Handling for how to enter NJ after-tax medical costs)” - “See Best Practices for handling of multiple medical amounts on SSA-1099”
F-8	Itemized Deductions Detail Worksheet (con’t)	Delete last sentence of Note at bottom and replace with “For non-cash contributions between \$500 and \$5000, link to Form 8283 and complete
G-1	Nonrefundable Credits	After bolded Note for Form 5695 Residential Energy Credits, add: “Taxpayer should provide certification from manufacturer/installer to assure eligibility” .
G-3	Child and Dependent Care Credit Expenses	Under “Who is a qualifying person?” - Second bullet, insert “disabled” before “person”.
G-5	Form 2441 – Credit for Child and Dependent Care Expenses	Screenshot dates are incorrect – Change dates in Lines 2, 2(a) and 8 to all read “2013”
G-8	Child Tax Credit	Highlight note at bottom of page: “You must claim the child as a dependent on your return to qualify for the Child Tax Credit” .

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H-2	Exception Codes and explanations for Premature Distributions from IRA or Retirement Plans	In chart at top of page, Exception Code 05, change (2) to: “10% (7.5% if taxpayer or spouse is over 65) of your adjusted gross income for the year” .
H-3	Other Taxes and payments cont.	<p>Replace “Estimated Tax Penalty” section with:</p> <p>“Volunteer preparers are not allowed to calculate federal underpayment penalties on federal Form 2210. If TW calculates that a penalty is due, then:</p> <ul style="list-style-type: none"> - If using the standard TW template, then Form 2210 will be in the tree with box 9 set to 0 via override. This will prevent Form 2210 from ever being red and no penalty will be added to the return. - If not using the standard template, then Form 2210 will show up as red in the tree when TW determines that a penalty is due. To resolve this: <ul style="list-style-type: none"> o First, enter last year’s tax in box 8. If Form 2210 is no longer red, then you’re done. o If Form 2210 is still red, then enter “1” in box 8. This will force the penalty to zero as required. <p>Even though the penalty is removed from the return, you should inform the taxpayer that they <u>may</u> receive a penalty notice from the IRS. See page K-4 for ways to avoid a balance due in the future and discuss with taxpayer.</p> <p>Note: For information on handling penalties in NJ (NJ-2210), see the NJ Special Handling document.”</p>
I-2	Summary of EIC Eligibility Requirements -	Under Part A Rules for Everyone: In 5 th box (Investment Income), add asterisk (*) to new footnote which reads: “Investment Income is taxable interest + tax-exempt interest + ordinary dividends + capital gains”
		Highlight second line under Part D that reads: “You must have earned income to qualify for this credit” and add “(See Pub 17 chapter for definitions)”
I-4	EIC with a Qualifying Chile	Add footnote to step 5: “See Pub 17 for exceptions for child born or died during the tax year, etc...”
I-6	Schedule EIC	Add note above boxes for question 4a: “Read questions 4a and 4b very carefully before checking any boxes”
I-7	Schedule EIC – Worksheet	After comment “Complete only those questions in red” (at top of right margin), add: “and complete them in sequence (top to bottom and only if red)” .
J-5	Education Credits (Continued)	After Note at bottom of page, add: “See Pub 970, examples 1 and 2, under heading “Adjustments to Qualified Educational Expenses” ”.
K-2	Split Refund Options	Add note above screen shot: “If refund is split between two accounts, complete Form 8888 as the very last activity to minimize danger that change in any other form would cause the split option total to disagree with the final refund amount.”
		Add note at bottom: “See instructions on Form 8888 to apply refund to the purchase of US Savings Bonds”

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L-3	Creating a Temporary TIN...	In first sentence of #2, change pages “1-4 and 1-5” to “C-16 and C-17”
M-1	Amended Returns	<p>Last sentence of 5th bullet which starts “In the state amendment...” change to “In the state amendment create explanation appropriate to state return changes and resolve any other red boxes.”</p> <p>On the back side of “M” Tab (across from Pg M-1), add the following information: “See federal 1040X instructions and NJ-1040X instructions for where to mail returns. If responding to a notice from IRS or NJ DoT, send returns to address in the notice.</p> <p>Otherwise addresses (as of 01-22-2014) are:</p> <p>Federal: Department of the Treasury Internal Revenue Service Kansas City MO 64999</p> <p>New Jersey (without payment): State of New Jersey Division of Taxation Revenue Processing Center – Refunds PO Box 555 Trenton NJ 08647-0555</p> <p>New Jersey (with payment): State of New Jersey Division of Taxation Revenue Processing Center – Payments PO Box 111 Trenton NJ 08645-0111”</p>
M-3	Filing for an Extension Using TaxWise	Replace whole section with note: “ File Extensions (Form 4868) using paper. ”
N-3	Creating a New Return	To right of screen shot No 1 (Create New Return); add note in right margin: “ When the SSN is entered for a new return, if carry forward data exists, click YES to load. ”
P-2	Frequent Taxpayer Inquiries	Add new category at bottom: “ Tax Booklets ”: “ Taxpayers no longer receive income tax packages containing forms, schedules and instructions by mail. Since most tax returns are now e-filed, the mailed tax packages have been discontinued. ”

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	Back Cover – (Contact Information for Volunteers)	Under “Internal Revenue Service”, add: - IRS SPEC Newark contact: <i>Name (tel#)</i> <ul style="list-style-type: none"> ○ Note: Check with your Coordinator to find the name and tel# of the SPEC rep for your county. e.g. for Morris county, this would be: Coral Gandiaga (973-468-3276)
		Under “State Department of Revenue”, add Phone Numbers: - State Volunteer Hotline (Outreach): 609-633-6015 - State E-file Help Desk: 609-633-1132 - State Customer Service Center: 609-292-6400 - Homestead Benefit: 888-238-1233 - PTR: 800-882-6597
		Also add BIG note at bottom of page: “See NJ Preparer page (http://www.taxprep4free.org/Preparer/index.html) for lots of useful information for preparers” (Also add as Bookmark/Favorite in your browser)”

Change Log

01-27-2014 v1.4:

- I-4, step 5 – add footnote

01-26-2014 v1.3:

- D-18 – Remove parenthetical for code Q

01-22-2014 v1.2:

- F-5 – update text in both areas

01-20-2014 v1.1:

- D-6 – typo
- D-20 – Add Box 3 instructions
- H-3 – replace “Estimated Tax Penalty” section

01-18-2014 v1.0:

- Initial release