

**PRO-P4 Sterling Learning Guide**

<b>Step</b>	<b>Document/TW Screen</b>	<b>Box/Line</b>	<b>Learning Points to Check &amp; Emphasize</b>
<b>0</b>	<b>Intake/Interview Sheet</b> Note 2	Page 4, Section B	On Intake/Interview Sheet, fill in answers to questions in Section B: - Question 1 - NO - Question 2 – YES Samantha Summers - Question 3 - NO - Question 4 - YES Samantha Summers - Question 5 - YES Samantha Summers Based on these answers & Pub 4012 (Page C-4), Samantha can be claimed as a qualifying child for dependency (even though she is obviously not a child)
<b>1</b>	<b>Main Info Screen</b> Social Security cards	Spouse Name line	Do not need to enter Page's last name, since it is the same as Steven's
	Note 3	Taxpayer Information section, spouse column	Page is considered blind. Make sure "Blind" box is checked under spouse column
	Intake/Interview Sheet, Page 2 bottom	Presidential Election Fund question	Do not check box since Sterlings do not wish to donate \$3 to Presidential Election Campaign Fund
	Note 1	Filing Status, Line 2	Sterlings will file MFJ
	Note 2	Dependents	List Samantha Summers as a dependent Relationship: Sister Months in Home: 12 Code: 1 "Child Who Lives with You" since she meets criteria for qualifying child Check box for EIC
	<b>Prep Use Form Screen</b>	Line 11	Answer NONE to language question
		Line 12	Answer YES to disabled question
		Line 13	Preparer's initials
		Line 14	QR initials (but only after Quality Review done)
<b>2</b>	<b>Interest Statement Screen</b> Chapman Federal	Line 1, Box 1 or 3 column Line 2, Box 1 or 3 column	Enter taxable interest from Box 1 into Box 1 or 3 Column on 1st line. On a 2nd line with the same payer name, enter interest on US Savings Bonds in Box 1 or 3 column since it is taxable for Federal and "-“ 505 in State Adjust column since it is not taxable for NJ TW transfers info from both lines to Sch B & 1040 Line 8a

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	<b>NJ 1040 Page 2 Screen</b>	Line 15a Line 15b	TW transfers the Box 1 interest to the NJ Taxable Interest line 15a TW transfers the US Savings Bond Interest to the NJ Tax Exempt Interest line 15b, since it is not taxable for NJ
<b>3</b>	<b>Interest Statement Screen</b> New City Bank Text	Line 3, Box 1 or 3 column  NAEOB column  State Adjust column	Enter taxable interest from Box 1 into Box 1 or 3 column. TW transfers to Sch B & 1040 Line 8a Enter Federal tax-exempt interest from Box 8 in NAEOB column with a Code E for exempt. Since this interest is for a Florida Municipal Bond fund, it is taxable for NJ. Therefore, need to enter a "+" 202 in State Adjust column 1040 Line 8a should now be \$2,495; Line 8b should be \$202
	<b>NJ 1040 Page 2 Screen</b>	Lines 15a & 15b	TW transfers both the Box 1 & the Box 8 interest to the NJ Taxable Interest line. NJ Line 15a should now be \$2,192; Line 15b should be \$505
<b>4</b>	<b>Dividend Statement Screen</b> Bridgeport Fund	Ordinary & Qualified Dividends columns	Enter Ordinary & Qualified Dividends on Dividend Statement. TW transfers to Sch B, 1040 Lines 9a & 9b, & NJ 1040 Line 16. Qualified dividends do not impact NJ return
		Capital Gain column	Enter Capital Gains Distribution from Box 2a on Dividend Statement (Capital Gain column) so they flow through to Schedule D Line 13 & to NJ 1040 Line 18
	<b>Form 1116 Screen</b>	Line in middle of paragraph at top of screen	Enter Foreign Tax Paid on Form 1116 screen 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
	<b>1040 Page 2 Screen</b>	Line 47	TW transfers the Foreign Tax Paid to 1040 as a nonrefundable credit. No impact on NJ return
<b>5</b>	<b>1099-R Screen</b> Averell Pension Fund Note 1	"Check if this is the taxpayer's address shown on the W-2" line	Check this box since address is correct
		Payer's name & address fields	Enter Payer ID #. TW will populate name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change
		Taxable Amount Not Determined box	Check Taxable Amount Not Determined box

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		Simplified Method Worksheet at bottom of screen  Line 1 Line 2  Line 3 Line 4 Line 5  Line 6 Line 7	Since no taxable amount was given in Box 2a, must complete Simplified Method Worksheet to determine taxable amount of distribution  Enter the following: Cost in the plan at annuity starting date = \$5,864 (from Box 9b) 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> (1/1/2009). Steven was 74, Page was 56, so total is 130. Click box for 121-130 TW calculates an exclusion of \$18.92 per month Payments were received for 12 months this year 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 26 <sup>th</sup> year would be a partial payout). Therefore, \$227 tax free for 2009, 2010 & 2011 = \$681 Exclusion (for 2012) = \$227 Remaining cost in pension = \$4,956 (\$5,864 – 681 – 227)
	<b>1040 Page 1 Screen</b>	Lines 16a & 16b	TW will transfer the gross distribution from Box 1 (\$18,625) to 1040 Line 16a, & the taxable amount (\$18,625 - \$227 exclusion = \$18,398) to Line 16b
	<b>NJ 1040 Page 2 Screen</b>	Lines 19, 27a, & 27b	TW transfers taxable pension amount to NJ Pension line 19. It is offset by NJ Pension Exclusion on Line 27a (Line 27a cannot be greater than Line 19). In addition, Sterlings are eligible to claim Other Retirement Income Exclusion of \$1,602 on Line 27b (difference between maximum exclusion of \$20,000 for MFJ & amount claimed on 27a)
<b>6</b>	<b>1099-R Screen</b> Scripps Investment Partners		Click on + sign next to 1099-R in Forms Tree to get a second 1099-R form
		"Check if this is the taxpayer's address shown on the W-2" line	Check this box since address is correct
		Payer's name & address fields	Enter Payer ID #. TW will populate name & address if in database. Always check to make sure it matches printed 1099-R; address can frequently change

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		Line 2	Taxable amount is given in Box 2a, so Simplified Method Worksheet is not needed
	<b>1040 Page 1 Screen</b>	Lines 16a & 16b	TW adds the total Scripps pension to both 1040 Lines 16a & 16b
	<b>NJ 1040 Page 2 Screen</b>	Lines 19, 27a, & 27b	TW adds Scripps pension to NJ taxable pension amount on Line 19. Pension exclusion on Line 27a is now raised to the maximum of \$20,000 for MFJ couple. Since Sterlings are now receiving maximum, they are not eligible to claim any Other Retirement Income Exclusion on Line 27b
<b>7</b>	<b>1040 Wkt 1 Screen</b> Social Security - Spouse	Social Security section, Spouse Column	Enter info for Page under Spouse column
		Medicare Parts B & D line	Use scratch pad to enter Medicare Parts B (\$1,385) & D (\$810). TW will transfer total (\$2,195) to Sch A Detail
	<b>NJ 1040 Page 2 Screen</b>	Line 30	Social Security income does not flow through to NJ 1040 since it is not taxable for NJ. However, NJ income changes because Medicare premiums flow through as a medical deduction on Line 30
<b>8</b>	<b>1040 Wkt 1 Screen</b> Social Security - Taxpayer	Social Security section, Taxpayer Column	Enter info for Steven under Taxpayer column. Don't miss Federal income tax withholding
		Medicare Parts B & D line	Use scratch pad to enter Medicare Parts B (\$1,385) & D (\$810). TW will transfer total (\$2,195) to Sch A Detail
	<b>NJ 1040 Page 2 Screen</b>	Line 30	Social Security income does not flow through to NJ 1040 since it is not taxable for NJ. However, NJ income changes because Medicare premiums flow through as a medical deduction on Line 30

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<b>9</b>	<b>Capital Gains Wkt Screen</b> Chapman Stock Sales Note 4	Line 1  Description column 1099 column Date Acquired column  Date Sold column Sales Price column Cost column Gain/Loss column Short/Long Term column	Enter all stock sales on Capital Gain/Loss Transactions Worksheet, not on Sch D or Form 8949 directly  Enter the following: 100 sh Chapman C – no 1099-B received 12/31/1984 (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) 03/23/2012 \$23,789 \$12,000 \$11,789 (TW calculates) L (TW determines)
	<b>Form 8949 Pg 2C Screen</b>	Part II, Box C  Line 3	TW populates a Form 8949 & checks box C in Part II for "Long-Term Transactions for which Boxes A or B do not apply" TW transfers the details of the Chapman stock sale from Capital Gains Wkt
	<b>Sch D Screen</b>	Line 10	TW transfers info from 8949 to Sch D. It adds gain from Chapman sale \$11,789 to Capital Gains Distributions of \$69 (from 1099-DIV) to calculate a net L/T gain of \$11,858
	<b>1040 Page 1 Screen</b>	Line 13	TW transfers Capital Gains from Sch D to 1040
<b>10</b>	<b>Sch D Screen</b> Note 5	Line 14	Enter L/T capital loss carryover from prior year directly on Sch D. Current year L/T gains will be netted against carryover loss, leaving no capital gains for current year
	<b>1040 Page 1 Screen</b>	Line 13	An additional \$-3,000 of the carryover loss can be applied against other income on 1040
	<b>Sch D Wkt 2 Screen</b>	Line 13	TW calculates the remaining capital loss carryover on Sch D Wkt 2. \$23,654 prior year carryover loss - \$11,858 current year capital gain - \$3,000 loss applied against other income Thus, \$8,796 can be carried over to next year at this step

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	<b>Intake/Interview Sheet Taxpayer Diary</b>	Page 4	Put a note on Intake/Interview Sheet & in Taxpayer Diary to remind client & next year's counselor of this carryover. TW will bring note from Diary up next year as part of client carryforward data
	<b>NJ 1040 Page 1</b>		NJ-1040 line 18 shows net Capital Gain for this year transactions only. If net is a loss, then NJ line 18 will be zero (NJ does not recognize net loss) NJ also does not recognize capital loss carryovers.
<b>11</b>	Note 6		DO NOT ADD K-1 WORKSHEET TO TREE – USE SAME SCREENS AS USUAL BASED ON TYPE OF INCOME NOTE: Refer to 2013 Pub 4012 Page D-3
	<b>Interest Statement Screen</b>	Line 4, Box 1 or 3 column	Enter "K-1 FRACKEM HOWE" as Payer on Interest Statement. Enter \$343 in Box 1 or 3 column
	<b>Dividend Statement Screen</b>	Line 2, Ordinary Dividends column	Enter "K-1 FRACKEM HOWE" as Payer on Dividend Statement. Enter \$474 as Ordinary Dividends
	<b>Sch D Screen</b>	Line 5	Use a scratch pad to enter Short-Term Capital Gains amount (\$218)
	<b>Sch E Page 1 Screen</b>		Add Sch E if not already in forms tree.
		Line A [Did you make any payments...]	Answer No (out of scope if Yes)
		Line 1 / A / Type	Enter 6 (Royalties) No need to enter anything in Address, Fair rental days, Personal use days, or QJV
		Line 4 / A	Use a scratch pad to enter Royalties amount (\$976) from K-1
	<b>Sch D Wkt 2</b>	Line 13	Since S/T capital gains have been added from the K-1, TW will re-calculate the capital loss carryover for next year on Sch D Wkt 2. Sterlings will now carryover \$8,578

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<b>12</b>	<b>F/S Tax Paid Screen</b> Note 7	State section	Refer to NJ Special Handling document Page 9 on TaxPrep4Free. Because there were amounts paid for two separate prior NJ tax years, attach a new scratch pad to the first line in State section that states, "State and/or local balance due from previous years' returns paid in 2012" This line already has NJ at the beginning of the line. (The second line is for previous year payments to states other than NJ.) Use the scratch pad to document and total the two amounts: \$203 from last year, and \$42 from three years ago. \$245 will flow to the line on the F/S Tax Paid Screen
	<b>Sch A Screen</b>	Line 5a	TW will transfer the \$245 to Federal Sch A for state taxes paid in 2012. Federal refund does not change because taxpayer is claiming standard deduction. You can tell because Sch A does not have a green check in forms tree
	<b>NJ Page 3 Screen</b>	Line 50	TW will not transfer the \$245 to NJ 1040 because they were not payments for 2012 taxes; they were paid in 2012 but for taxes due in 2011 & 3 years ago
<b>13</b>	<b>F/S Tax Paid Screen</b>	State section	Refer to NJ Special Handling document Page 9 on TaxPrep4Free Enter the final 2011 estimated tax payment of \$40 paid on 1/3/2012 on the line that states, "last state estimate payment for 2011 paid in 2012 (due 1/15/2012)"
		State section	Enter the three \$50 estimated tax payments for 2012 under the 4/15/2012, 6/15/2012 & 9/15/2012 columns
		State section	Enter the \$60 estimated tax payment for 2012 under the 1/15/2013 column. Since the payment was actually made in 2012, check the * box. Instructions at the top of State section tell you to check * box if payment 4 was paid before 1/1/2013
	<b>Sch A Screen</b>	Line 5a	TW will transfer the \$40 final payment for 2011 estimated taxes + all four 2012 estimated tax payments (\$210) to Federal Sch A for state taxes paid in 2012. Sch A Line 5a should now be \$495. Federal refund does not change because taxpayer is still claiming standard deduction
	<b>NJ Page 3 Screen</b>	Line 50	TW will transfer all four estimated tax payments (\$210) to NJ 1040 because they were all applied to 2012 taxes. It will not transfer the \$40 payment on 1/3/2012 because it was for 2011 taxes, not for 2012 taxes

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<b>14</b>	<b>NJ 1040-ES Screen</b> Note 9	"Estimate desired, if different from required" line (under Line 16)	Add Form NJ ES Wkt by clicking on Forms List icon at top of screen. If taxpayer wishes to pay a specific amount of estimated taxes for next year, enter that amount under Line 21 where it says, "Estimate desired, if different from required." (\$200 for four \$50 payments) TW will populate \$50 under each due date for 2013 estimated taxes
	<b>NJ 1040-ES Vouchers</b>		TW will print out a voucher for each 2013 estimated tax payment that the taxpayer should send in with their check. Each voucher shows as a separate page in forms tree. Address to send payment & due date is printed on voucher. Explain all this to client
<b>15</b>	<b>1040 Page 1 Screen</b> Still red in forms tree Note 7	Box above Line 10	Box above Line 10 is still underlined in red. Answer question NO since Sterlings owed a balance due with their last year's NJ return
<b>16</b>	<b>Sch B Screen</b> Still red in forms tree Note 12	Line 7a & 8	Answer NO to questions on Lines 7a & 8 since Sterlings had no financial involvement of any kind in any foreign country
<b>17</b>	<b>Run diagnostics</b>	Run Diagnostics icon at top of screen	Run diagnostics on Federal return before entering direct deposit (or automated withdrawal) information. If you checked the EIC box on Samantha's line on Main Info Screen, you will get the following diagnostic error: "In Sch EIC the first child listed does not appear to be a qualifying child for this credit....." Click on the error & TW will take you to Sch EIC. Answer YES to question 4b which is in red.
<b>18</b>	<b>Run diagnostics</b>	Run Diagnostics icon at top of screen	Re-run diagnostics. There should now be no errors
<b>19</b>	<b>Main Info Screen</b> Note 14	Bank Account Information	Enter Routing number (RTN): 123456789 Enter Account number (DAN): 87654321
	<b>1040 Page 2 Screen</b>	Line 74	Enter Routing number (RTN): 123456789 Enter Account number (DAN): 87654321 Checking: checked
<b>20</b>	<b>Run diagnostics</b>	Run Diagnostics icon at top of screen	Run diagnostics on Federal return before starting NJ specific items. There should be no errors



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<b>21</b>	<b>NJ 1040 Page 1 Screen</b> Municipality Code Note 11	Municipality Code line	Enter Municipality Code for Wharton (1439), where Sterlings currently live. Can obtain from NJ 1040 instruction booklet or from link on Preparer page on TaxPrep4Free
<b>22</b>	<b>NJ 1040 Page 2 Screen</b> Gubernatorial Elections Fund Note 2	Gubernatorial Elections Fund question	Check NO to Gubernatorial Elections Fund question “Do you wish to designate \$1 of your taxes for this fund?” for both taxpayer & spouse
<b>23</b>	<b>NJ 1040 Page 3 Screen</b> Note 13	Line 45 – Use Tax	Based on Sterlings’ NJ Gross Income on NJ 1040 Line 28 (\$26,415), the Estimated Use Tax Chart on Page 36 of NJ 1040 booklet shows they would owe \$44 in use tax. Enter \$44 on scratch pad off Line 45 to document that amount came from Use Tax chart
<b>24</b>	<b>NJ 1040 Page 3 Screen</b> Rent Note 11	Worksheet F Line 1	Document the rent calculation on a scratch pad off Line 1 of Worksheet F. The Sterlings can claim rent for the Dover apartment through June 30 (\$1,000/mo x 6 months = \$6,000). They can also claim rent on the Wharton apartment from July - December (\$1,100 x 6 = \$6,600). They cannot claim double rent payments for June & July because it must be for a residence you owned & <u>occupied as your principal residence</u>
		Worksheet F Line 1  NJ 1040 Line 49	TW will calculate the total rent from the scratch pad (\$12,600) on Line 1. It will then calculate 18% of the rent that can be claimed as property taxes (\$2,286). TW determines that it is better for Sterlings to claim the \$50 property tax credit than the property tax deduction. It transfers the \$50 to Line 49
		Line 37b	Since the Sterlings rent, do not check box on NJ 1040 Line 37b that says “Check here if on October 1, 2012 you were a New Jersey homeowner

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<b>25</b>	<b>NJ DD Wkt Screen</b> Direct Deposit Note 14	Direct Debit of Balance Due section  Bank Account Info section  Electronic Filing Only section  "Will the refund or debit you are requesting involve a foreign bank account?"	Direct deposit info was entered on Main Info Screen & 1040 Page 2 in Step 19 for Federal refund. Sterlings want to handle their NJ balance due using the same bank account info.  Enter the Routing #, Account # & Account Type under Bank Account Info section. Also, enter the date they want the money to be debited from their account (because we're using last year version of TW, the only date that will not cause a diagnostic message is today's date).  Re-enter data under Electronic Filing Only section for verification purposes. NOTE: If taxpayer gets refunds from both Federal & State, they can just check a box on NJ DD Wkt that says to use the same bank account as for Federal. However, for a Direct Debit for NJ, must enter the bank account info again Answer NO to question about foreign bank account
<b>26</b>	<b>Run diagnostics</b>	Run Diagnostics icon at top of screen	Correct any incomplete/incorrect entries & re-run diagnostics until you get no errors NOTE: The Create e-file button will not appear until there are no errors (warnings are OK)
<b>27</b>	<b>Create e-File(s)</b>	Create E-File button under Diagnostics results	Should receive message "E-Files created successfully" Even if there are no diagnostics discovered by the Run diagnostics process, there may be additional problems discovered as part of the Create e-file process; these will need to be resolved before the return can be e-filed