

LAW-L1 Kent Learning Guide

STEP	DOCUMENT/TW SCREEN	BOX/LINE	LEARNING POINTS TO CHECK & EMPHASIZE
0	Intake/Interview Sheet SS Cards Notes 3, 4, 5, 7	Page 1, Part II, Line 2	On Intake/Interview Sheet, change first name of granddaughter to Tamara, which is name on Social Security card
		Page 4, Section B	Based on info in Notes 3, 4, 5 & 7: - Question 1 - NO - Question 2 - YES Kerri Bryant - Question 3 - NO - Question 4 - YES Tamara Thomas, Kendra Kent & Kerri Bryant - Question 5 - YES Tamara Thomas, Kendra Kent & Kerri Bryant Based on these answers & Pub 4012 (Page C-4), all 3 can be claimed as a qualifying child for dependency
1	Main Info Screen	Spouse line	Must enter spouse's last name, since it is different than taxpayer's
	Note 2	Presidential Election question	Check box to indicate that Karl wishes to donate \$3 to Presidential Election Campaign. Do not check the box for spouse, since Kara does not wish to contribute
	Notes 3, 4, 5, 7	Dependents	List dependents, starting with youngest: Tamara Thomas – Grandchild, Code 1 “Child Who Lives with You,” DC, EIC, CTC all checked. Code is 1 even though Tamara is grandchild because she is considered a Qualifying Child for dependency Kendra (last name not needed since same as taxpayer's) – Daughter, Code 1 “Child Who Lives with You,” EIC checked Kerri Bryant – Sister, Code 1 “Child Who Lives with You,” EIC checked. Again, Code is 1 even though Kerri is obviously not a child, but she is considered a Qualifying Child for dependency
	Prep Use Form	Line 11	Answer NONE to language question
		Line 12	Answer YES to disabled question (Kerri Bryant)
		Line 13	Preparer's initials
		Line 14	QR initials
2	W-2 Screen Jefferson Independent School District	Box 13	Ensure that Retirement Pay is checked

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		Box 14	Use special TW codes: NJSUI for UI/WF/SWF; NJSDI for Disab; NJFLI for FLI Enter 414H in Box 14. Does not qualify for Form 8880 Credit for Qualified Retirement Savings Contributions (does not affect TW calculations)
3	W-2 Screen Americus Petroleum	Forms Tree	Add another copy of W-2 screen in TW by clicking on + next to W-2 in Forms Tree
		Boxes 3-6, 12	When you enter Wages in Box 1, Boxes 3, 4, 5, & 6 do not match printed W-2. However, once you enter code D \$2,954 in Box 12 for an elective deferral to a 401K account, TW will change those boxes to match. Therefore, wait to check box "to take calculations off Lines 3, 4, 5, & 6" until rest of W-2 is entered
		Box 13	Ensure that Retirement Pay is checked
	Sch A Screen NJ Form 2450 TP Screen	Box 14 Line 5a Line 1a	Disability in Box 14 was for a private disability plan (PP #), not the NJ State disability plan. Therefore, it must be entered as NJSDIPP, not just NJSDI. TW will not include the private plan amount on Schedule A Line 5a State Income Taxes because the title is not NJSDI exactly. In addition, disability will not flow through to Form 2450 for Excess Unemployment & Disability. See NJ Special Handling for details on manually adding PP info to NJ 2450
4	Sch B Screen Interest from Seller-Financed Mortgage Text	Part I, Line 1a	Enter purchaser's name, address, SS #, & amount of interest received If appropriate, fill in state info to detail joint & spouse amount (all Karl's, so joint & spouse amounts are both 0)
5	Interest Statement Screen 1099-INT Kendall Federal Credit Union	Line 1, Box 1 or 3 Amount	Enter interest from 1099-INT
		Line 1, Early Penalty Box	Enter Early Withdrawal Penalty
6	Interest Statement Screen 1099-INT Gordon Investments	Line 2, NAEOB Box	Enter tax-exempt interest in NAEOB field with a code of E (Exempt). No state adjustment is needed since interest from a NJ municipal bond is tax-exempt for NJ also

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7	Interest Statement Screen 1099-INT ZYX Investments	Line 3 , Box 1 or 3 Amount Column Line 4, Box 1 or 3 Amount Column, State Adjust Column Line 4, Federal Withheld Column Line 5, NAEOB Column, State Adjust Column	Can use multiple lines with same name (ZYX Investments) to enter info: On Line 3, enter: - \$123 for taxable interest On Line 4, enter: - \$2,455 for taxable interest on US Savings Bonds in Box 1 or 3 column (Not tax-exempt for Federal unless it is used for education expenses, not house repairs). Not taxable in NJ so must enter a “-“ and \$2,455 in State Adjust column - \$245 in Federal Withheld column On line 5 enter: - \$189 for Federal tax-exempt interest in NAEOB column with code of E. Since this is interest on a municipal bond from another state, interest is taxable in NJ. Enter “+” and \$189 in State Adjust column to add to NJ interest income
8	Dividend Statement Screen 1099-DIV ZYX Investments	Ordinary Dividends & Qualified Dividends Columns	Enter \$232 in both Ordinary Dividends & Qualified Dividends columns
			Enter \$69 in Capital Gain column
	Sch D Screen	Line 13	TW will transfer Capital Gains to Sch D
			Nondividend Distributions are return of capital. These should not be entered in TW at all since they are just returning investor's principal. They should be subtracted from cost basis when investment is sold
	Form 1116 Page 1 Screen Foreign Tax Credit	Blank line in middle of paragraph at top of page	Add Form 1116 to Forms Tree by clicking on Forms List icon at top of screen, typing Foreign Tax, & clicking Add. Enter \$4 (\$3.75) in box in middle of screen. Don't need to “get the red out” of rest of screen
9	1040 Page 1 Screen Income Tax Refund	1040, Box above Line 10	Answer YES to question

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	State Tax Refund Wkt Screen	Lines 1, 2, 3, 6, 7, 8, 15, 17	<p>Line 1 - \$437 income tax refund from 2011 (Use link to NJ Form 1099-G Inquiry in left column of taxprep4free.org Preparer Page to obtain amount)</p> <p>Line 2 - \$1,320 2011 Sch A Line 5a Income Taxes \$930 2011 Sch A Line 5b Sales Tax</p> <p>Line 3 - Since refund is only taxable to the extent that Line 5a Income Taxes exceed Line 5b Sales Tax, only \$390 of the 2011 \$437 refund could be taxable in 2012</p> <p>Line 6 - \$13,037 2011 itemized deductions</p> <p>Line 7 – 2011 Filing status 2 (MFJ)</p> <p>Line 8 - 1 for over age 65 in 2011 (Karl)</p> <p>Line 15 - \$49,859 2011 taxable income</p> <p>Line 17 - Since refund is only taxable to the extent that itemized deductions (\$13,037 on Line 6) exceed standard deduction (\$12,750 on Line 9), only \$287 of refund is taxable in 2012</p>
	1040 Page 1 Screen	Line 10	TW transfers \$287 to 1040 Line 10
			TW will automatically carry forward a lot of info above if 2011 data is available. If no carry forward data, obtain info from last year's return. Printed return does not show both Sch A Lines 5a & 5b, since taxpayer can only claim 1 or the other. If needed, use Sch A Sales Tax Table link in left column of taxprep4free.org Preparer Page to determine 2011 sales tax amount
10	Sch C Page 1 Screen Business Income	Line A Line B	<p>Principal Business - Medical Transcription</p> <p>Business Code - 561410 (For real return, use F1 to get TW Help. Search for Business Codes for Sch C. TW brings up instructions for Sch C. Halfway down page, click on link for Business Codes)</p>
		Lines C - E	Leave blank since business does not have a separate name, address, or EIN
		Line F	Accounting Method - Cash
		Line G	YES
		Line H	No check since business did not start this year
		Line I	NO
	1099-MISC Screen Pratt Medical Centers Inc	Sch C, Part I, Line 1 link to 1099-MISC	<p>Enter Payer info</p> <p>Enter \$1,637 in Box 7 for nonemployee compensation</p>

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	Scratch Pad Screen	Sch C, Part 1, Line 1 link to Scratch Pad	Enter \$1,082 income from other doctors. Description should be "Business Income." On first line, enter "Medical transcription income from Doctors," with an amount of \$1,082
	Sch C Page 1 Screen	Line 7	TW adds 1099-MISC+Scratch Pad income to determine "Gross Income" (\$2,719)
	Sch C Page 2 Screen	Part IV, Lines 43 - 47b	Enter mileage info Line 43: 01/02/2006 – date car placed into service for business Line 44: 420 business miles (35 miles x 12 months); 10,000 other miles Check box to have TW calculate business miles at standard mileage rate Lines 45, 46, 47a, 47b: YES
	Sch C Page 1 Screen	Part II, Line 9	TW will calculate \$233 for car expense & transfer it to Part II Line 9 on Page 1
	Sch C Page 1 or 2 Screen	Part II, Line 18 or Part V	Enter expenses for paper & printer cartridge under an appropriate line in Part II or under Other Expenses in Part V
		Line 31	TW calculates Net Profit of \$2,369
	1040 Page 1 Screen	Line 12	TW transfers Net Profit to 1040 Line 12
11	Capital Gain or Loss Transactions Worksheet Screen		Enter all sales of assets on Capital Gain or Loss Transactions Worksheet, not on Schedule D or Form 8949. Worksheet is near top of Forms Tree
	1099-B Pelrum Brokerage Service Purdue stock	Line 1	Description: 100 sh Purdue 1099: A (cost shown on 1099-B) Date acquired: 7/1/2001 Date sold: 3/10/2012 Sales price: \$8,859 Cost basis: \$10,123 Code: E (Selling Expenses) Must use this code to subtract the \$35 sales commission from any gain/loss since it was not subtracted from the gross sales price – Codes are in Pub 4012 Page 2-14. Adjustment to gain or loss: -\$35 commission (to subtract commission from gain) TW calculates loss of -\$1,299 & long-term

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12	ZYX Investments Rust Corporation stock	Line 2	Description: 100 sh Rust Corp 1099: A (cost shown on 1099-B) Date acquired: 11/1/1998 Date sold: 9/23/2012 Sales price: \$1,700 Cost basis: \$3,200 Code: None (Commissions subtracted from sales proceeds on 1099-B) Adjustment to gain or loss: None TW calculates loss of -\$1,500 & long-term
	ZYX Investments Rio Motors Inc	Line 3	Description: 150 sh Rio Motors 1099: A (cost shown on 1099-B) Date acquired: 7/15/2008 Date sold: 6/1/2012 Sales price: \$10,675 Cost basis: \$9,543 Code: None (Commissions subtracted from sales proceeds on 1099-B) Adjustment to gain or loss: None TW calculates gain of \$1,132 & long-term
	ZYX Investments Rider Corporation stock Text	Line 4	Description: 65 sh Rider Corp 1099: B (no cost shown on 1099-B) Date acquired: IN/HE/RIT (from drop-down list under Date Acquired) Date sold: 12/30/2012 Sales price: \$5,663 Cost basis: \$7,222 (Fair Market Value on date of uncle's death) Code: None (Commissions subtracted from sales proceeds on 1099-B) Adjustment to gain or loss: None TW calculates loss of -\$1,559 & long-term (all inherited stock considered L/T, other than special circumstances when sold in 2010)
	Form 8949 Screens	Page 2A (L/T with Code A) Page 2B (L/T with Code B)	TW transfers all the transactions in the same category to Form 8949. Kent has 3 L/T transactions with 1099 Code A & 1 L/T transaction with 1099 Code B, so 2 Forms 8949 are needed.
	Sch D Screen	Lines 8 & 9	TW totals all the transactions on each 8949 & transfers totals to Sch D Lines 8 & 9

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	1040 Page 1 Screen Sch D Wkt 2 Page 2 Screen Main Info Screen Notes Or Taxpayer Diary	Line 13 Line 13	Total L/T loss is $-\$3,226 + \69 (Capital Gains Distribution from 1099-DIV) = $-\$3,157$. TW will transfer $-\$3,000$ to 1040 Line 13 to apply against other ordinary income. Remaining $-\$157$ loss must be carried forward to 2013 on Sch D Worksheet 2 Line 13. Point out the carryover to taxpayer. Make note on bottom of Main Info screen or in Taxpayer Diary to alert next year's counselor
13	1099-R Screen Saulk Trust Co	Box 2a	Taxable amount is shown in Box 2a so Simplified Worksheet is not needed
		Box 7	Ensure that IRA is checked in Box 7 so that amounts will transfer to 1040 Line 15 for IRAs, not Line 16 for pensions
14	1099-R Screen Yale Security IRA	Forms Tree	Add another copy of 1099-R screen in TW by clicking on + next to 1099-R in Forms Tree
		Box 7	Ensure that IRA is checked in Box 7 so that amounts will transfer to 1040 Line 15 for IRAs, not Line 16 for pensions
	1099-R Screen 1040 Page 1 Screen IRA Rollover Explanation Screen Text	Box 7 Line 15b	Code G in Box 7 indicates a direct rollover. (See p4012 page D-18 for a list of codes with explanations and IN-SCOPE / OUT-OF-SCOPE.) TW checks rollover box on 1040 Line 15b. Link from box after "F9 to explain" on Line 15b to IRA Rollover Explanation screen. Type in "Direct transfer of IRA funds from Yale Security IRA to Merrill Lynch." TW will then check box after "F9 to explain." The $\$11,755$ will not be taxable
15	1099-R Screen Defense Finance & Accounting SVC	Forms Tree	Add another copy of 1099-R screen in TW by clicking on + next to 1099-R in Forms Tree
		Address Line	Since Kent's address on printed 1099-R does not match current address shown at top of 1099-R screen (from Main Info screen), you must check box at top that says "Check & make changes to the address below." Then type in address from printed 1099-R
		Box 2	Since Box 2a on printed 1099-R is blank & there are no employee contributions to the pension, TW will treat the entire gross distribution in Box 1 as taxable on Federal 1040. Must "get the red out" of Box 2 (See Pub 4012 Page 2-20 A Example 1)

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		Box 2 on bottom left of 1099-R screen	This is a military pension & is not taxable in NJ. Checking Box 2 on bottom left of 1099-R screen will take the \$1,200 pension out of NJ income. If you forget which box to check, use NJ Special Handling document in right hand column of Preparer Page on taxprep4free website. This document gives you hints on special things you need to do for NJ return to be completed correctly
16	1099-R Screen Stillman Pension Fund	Forms Tree	Add another copy of 1099-R screen in TW by clicking on + next to 1099-R in Forms Tree
		Box 4	Enter Federal tax withheld
		Simplified Method Worksheet at bottom of 1099-R screen Lines 1 - 7	<p>Since Taxable Amount Not Determined is checked in Box 2b & there were employee contributions to this pension, must use Simplified Worksheet to determine taxable amount of distribution (See Pub 4012 Page 2-20 B Example 2 & Page 2-18)</p> <p>Line 1: Cost in plan at annuity starting date = \$5,864 (from Box 9b)</p> <p>Line 2: Age of primary annuitant at annuity starting date (1/1/2011) = 69 (66-70)</p> <p style="padding-left: 40px;">Check "if annuity starting date is after 11/18/1996"</p> <p style="padding-left: 40px;">Do not check joint & survivor annuity</p> <p>Line 3: TW calculates exclusion amount as \$27.92 per month</p> <p>Line 4: Number of months for which payments were received this year = 12</p> <p>Line 5: Amount recovered tax free in prior years = \$335 during 2011 (first year)</p> <p>Line 6: Exclusion for 2012 = \$335</p> <p>Line 7: Remaining cost in pension = \$5,194 (TW calculates: original basis (\$5,864) – tax free in prior year (\$335) – tax free in 2012 (\$335) = cost remaining to recover (\$5,194)</p> <p>The amount excluded from taxation will be the same each year that pension is received, except if the first & last years are partial years</p>
	1040 Page 1 Screen	Lines 16a & 16b	<p>TW transfers the full pension distribution from box 1 (\$18,625) to 1040 Line 16a Pensions</p> <p>TW also subtracts the exclusion (\$335) from the distribution in Box 1 (\$18,625) & adds the result (\$18,290) to 1040 Line 16b Taxable Pension</p>

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	NJ 1040 Page 2 Screen	Lines 19, 28, 38 & 66	While the taxable income from the pensions are added to Pension, Annuities & IRA Withdrawals income on NJ 1040 Line 19, gross income on Line 28, taxable income on Line 38, & refund on Line 66 do not change. This is because the NJ pension/IRA amount has not exceeded the \$20,000 Pension Exclusion on 1040 Line 27
17	Sch E Page 1 Screen Schedule K-1 Black Jack Production Co		Link to Schedule E from 1040 Line 17. Do <u>not</u> enter this info on Sch K-1
		Line A	NO
		Line 1A	Fill in Partnership's Address & enter 6 as Type for Royalties
		Line 4 Column A	Enter \$1,050 from Royalties in Box 7 on K-1
	1040 Page 1 Screen	Line 17	TW transfers the royalties income to 1040 Line 17
18	1099-G Screen NJ Department of Labor		Link to 1099-G Unemployment Benefits Received screen from 1040 Line 19
		Line 1 Line 5	Unemployment Benefits Received = \$2,550 Federal Tax Withheld = \$120
	NJ 1040 Page 2 Screen	Lines 38 & 66	NJ Taxable Income & Refund do not change because Unemployment is not taxable for NJ
19	1040 Wkt 1 Screen SSA-1099		Link to 1040 Worksheet 1 from 1040 Line 20a
		"Social Security Received This Year" Line	Always use amount in Box 5 for "Social Security Received This Year". It will be in pink on a real SSA-1099
	Sch A Detail Screen	"Medicare Parts B, C, & D" Line "Medicare from 1040 Worksheet" line	Use a scratch pad off Medicare line to add Medicare Parts B & D together. TW will transfer total to Sch A Detail Medical Expenses
	1040 Wkt 1 Screen	Federal Tax Withheld	Enter \$360 of Federal tax withheld
	NJ 1040 Screen	Lines 30, 38 & 66	Social Security income is not taxable for NJ. However, medical expenses over 2% of NJ Gross Income on Line 28 can be claimed as a deduction on Line 30. Therefore, NJ Taxable Income & Refund change
20	1040 Screen 1040 Wkt 7 Screen NJ Lottery	Line 21 Line 1	Link to 1040 Wkt 7 "Line 21: Other Income Worksheet" screen from 1040 Line 21. Link again to W-2G screen from Line 1 "Gambling Winnings from Form W-2G"

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	W-2G Screen	Box 13 & 14	Be sure to enter NJ & State ID in Box 13 & State Tax Withheld in Box 14
	W-2G Screen Sch A Screen	Line at bottom of W-2G screen Line 28	Enter \$1,000 gambling losses at bottom of W-2G screen. TW will transfer the losses (up to amount of winnings) to Sch A Line 28. Gambling losses are not subject to the 2% of AGI limitation that most miscellaneous deductions are
	W-2G Screen	"See F-1 help" box on lower left of W-2G screen	Since lottery winnings < \$10,000, check "See Box F-1" to tell TW to exclude winnings from NJ taxable income
	1040 Wkt 7 Screen 1040 Page 1 Screen	Line 1 Line 21	TW will transfer gambling income to 1040 Wkt 7 & to 1040 Line 21. It will fill in "GAMBLING WINNINGS" under Type on Line 21
21	1040 Wkt 2 Screen Educator Expenses		Link from 1040 Line 23 to 1040 Wkt 2
		Educator Expenses section	Enter \$240 under spouse column
	Sch A Screen	Line 21	If the amount spent was > maximum \$250 allowed as Educator Expenses, you could claim the excess over \$250 as Unreimbursed Employee Expenses (subject to 2% of AGI limitation) - N/A for this problem
22	1040 Page 1 Screen Alimony Paid	Line 31	Enter SS # of ex-wife & \$3,600 as amount of alimony paid
23	1040 Page 1 Screen IRA Contribution	Line 32	Link to IRA Worksheet from 1040 Line 32
	IRA Wkt Screen	Top of screen	TW answers both questions at top of screen based on W-2 entries (check in Retirement Pay box)
		Line 9	TW calculates Maximum Allowable Deduction as \$6,000 on Line 9. Kara is allowed \$6,000 (rather than usual \$5,000) because she is over age 50
	IRA Wkt Screen 1040 Page 1 Screen	Line 10 Line 32	Since Kara wants to contribute amount that would give her maximum tax benefit, enter \$6,000 on Line 10. TW transfers to 1040 Line 32
	NJ 1040 Screen		IRA contributions are not deductible for NJ. If taxpayer keeps track of amounts contributed, he may be able to exempt that amount from NJ taxation when money is taken out of IRA
24	1040 Page 1 Screen Student Loan Interest	Line 33	Link to 1040 Wkt 2 Student Loan Interest section from 1040 Line 33

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	1040 Wkt 2 Screen	Line 1 of Student Loan Interest section	Enter \$268 under spouse column
	1040 Page 1 Screen	Line 33	TW transfers to 1040 Line 33
25	Sch A Detail Screen Itemized Deductions for Medical Expenses	Medical Expenses section	Enter medical expenses on Sch A Detail Worksheet, not Sch A directly
		Insurance Premiums Paid	Enter \$1,200
		Other Medical Expenses	Enter Doctors (\$1,653), Hospital (\$3,200), Prescription Drugs (\$965), & Prescription Eyeglasses (\$210).
		Medical Miles	Enter 1236 Medical Miles (103 miles per month x 12). TW will calculate deduction at \$.23/mile (\$284)
		Medicare from 1040 Wkt	\$1,985 for Medicare Parts B & D was already transferred from SSA-1099 info entered on 1040 Wkt 1
	Sch A Detail Screen Sch A Screen	Total Medical Expenses Lines 1 - 4	TW totals Medical Expenses (\$9,497) It then transfers total to Sch A Line 1 Medical & Dental Expenses. It calculates the amount that is greater than 7.5% of AGI (1040 Line 38) & populates the Medical Expenses allowable deduction on Line 4. If AGI changes due to later entries, TW will re-calculate the Medical deduction automatically
	Itemized Deductions for Life Insurance & Funeral Expenses		Life insurance & funeral expenses cannot be claimed as Sch A deductions
	Sch A Detail Screen Itemized Deductions for Charitable Contributions	Charitable Contributions section	Enter charitable contributions on Sch A Detail Worksheet, not directly on Sch A
		Cash Contributions, 50% Limit Organizations	Enter: Church \$1,650 NPR, ACS, Shriners \$225 Millsap School \$250 Total: \$2,125
		Other than Cash Contributions, 50% Limit Organizations	Enter: Salvation Army \$350

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	Sch A Screen	Lines 16, 17, 19	TW transfers the total of Cash Contributions to Sch A Line 16 & the total of Other than Cash Contributions to Line 17. TW totals the Gifts to Charity on Line 19 (\$2,475)
	Sch A Screen Itemized Deductions for Home Mortgage Interest	Line 10 "Home Mortgage Interest & Points from 1098, not listed above"	Enter \$3,164
	Sch A Screen Itemized Deductions for Real Estate Tax	Line 6 "Real Estate Taxes on your principal residence, not listed above"	Enter \$2,135
	Sch A Screen Itemized Deductions for Other Miscellaneous Deductions	Line 28	Gambling losses were already entered on W-2G, & TW transferred \$1,000 to Line 28
	Itemized Deductions for Speeding Tickets		Speeding tickets are not deductible
	Sch A Screen	Line 29	TW totals all itemized deductions on Line 29. It then compares the itemized deductions to the standard deduction (\$13,050). Since itemized is higher, TW populates 1040 Line 40 with the Itemized Deductions total
	1040 Page 2 Screen	Line 40	
26	1040 Page 2 Screen Child & Dependent Care Credit	Line 48	Link to Form 2441 from 1040 Line 48
26	Form 2441 Screen Child & Dependent Care Credit	Lines 1a & 1b	Enter name & address of Maryville Day Care Center
		Line 1c	Check EIN box. Type in number with no dashes. TW will fill in E as Type
		Line 1d	Enter \$1,100 expenses
		Line 2a, 2b, 2c	TW filled in Qualifying Person's name & SS # on Line 2a & 2b. Enter Qualified Expenses of \$1,100 on 2c
	Form 2441 Screen 1040 Page 2 Screen	Line 11 Line 48	TW calculates credit of \$220 (20% of qualified expenses) on Line 11 It transfers credit to 1040 Line 48

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27	Form 1098-T Northern Kentucky University		Postpone entry of education expenses until diagnostics have been run at end of return. This will allow comparison of education options once all other figures are finalized
28	1040 Page 2 Screen Energy Credits	Line 52	Link to Form 5695 from 1040 Line 52. TW will populate both Page 1 & 2 in tree. Page 1 is for solar, wind, & geothermal credits (N/A). Go to Page 2 for Nonbusiness Energy Property Credit to enter info for insulation & windows
	Form 5695 Page 2 Screen	Line 19a Line 19b Line 19c All lines 20 Line 21a Line 21d	YES Address of main home NO Kents have not claimed any credits in prior years, so all should be 0 \$175 for insulation \$7,450 for windows. TW determines that maximum allowed is \$2,000 & populates Line 21h with \$2,000
			Be careful to follow instructions on whether to include labor costs. All items entered on Lines 21 must <u>exclude</u> labor; items entered on Lines 24 may <u>include</u> labor
	1040 Page 2 Screen	Line 52	TW calculates the allowable credit of \$218 & transfers it to 1040 Line 52
29	F/S Tax Paid Screen Estimated Tax Payments/ 2011 Refunds	Line 63	Link to F/S Tax Paid screen from 1040 Line 63
		Line "From last year" in Federal section	Amount from 2011 Federal refund applied to 2012 taxes (\$200). TW will populate date of 4/15/2012
		Lines 1 & 3 in Federal section	Actual dates Federal estimated taxes were paid in 2012 & amounts
	1040 Page 2 Screen	Line 63	TW will total the refund applied from last year + the 2 estimated payments & transfer the \$400 total to 1040 Line 63
	F/S Tax Paid Screen	Column "Credit from last year" in State section	Amount from 2011 state refund applied to 2012 taxes (\$100)
		4/15/2012 & 9/15/2012 columns in State section	\$50 in 4/15/2012 column \$40 in 9/15/2012 column

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	Sch A Screen NJ 1040 Page 3 Screen	Line 5a Line 50	TW will total all state payments made in 2012 & transfer total (\$190) to 1040 Sch A Line 5a Income Taxes. TW will also calculate all payments that apply to 2012 taxes (\$190) & transfer to NJ 1040 Line 50. If the last estimated payment was paid after 1/1/2013, then the \$40 <u>would not</u> be included on 1040 Sch A Line 5a, but <u>would</u> be included in NJ 1040 Line 50
30	Note 8 Inheritance		Inheritances are not taxable for either Federal or State so no need to enter \$5,000 from great-aunt
31	Sch D Page 1 Screen Note 13 Capital Loss Carryover	Line 14 in Long-Term section	\$253 in long-term capital loss carryover from 2011 return that can be added to 2012 losses (\$-3,157)
			Based on capital gains losses in Steps 11 & 12, TW had already populated \$-3000 on 1040 Line 13 (maximum loss you can claim against other income) . TW had also transferred the remaining \$157 loss to Sch D Wkt 2 as a capital loss carry- over to 2013. Now TW will add this additional \$253 loss for a total of \$410 carryover
32	Sch B Screen Note 9 – Sch B still red	Lines 7 & 8	Answer NO to financial involvement questions at the bottom of Schedule B
33	Sch EIC Screen Run Diagnostics		When you run Diagnostics before doing the education credits comparison, an error appears, "On Sch EIC, the 2nd & 3rd child (Kendra & Kerri) do not appear to be a qualifying child for this credit....." Click on the error message to go to Sch EIC, Line 4
		Line 4a	For Kendra: Answer YES to question 4a to show that she is qualifying because she is under 24, a full-time student, & younger than her parents. Directions then say to skip question 4b
		Line 4a	For Kerri: Answer NO to question 4a, but YES to question 4b to show that Kerri is qualifying because she is permanently & totally disabled
	Sch EIC Wkt Screen	Line 5	Even though all 3 dependents are now qualifying for EIC, Sch EIC Worksheet Line 5 shows that the Kents are not eligible for EIC because their investment income (\$7,436) is greater than \$3,150. TW does not make Sch EIC Wkt red in tree & there is no need to answer the rest of the questions on Sch EIC Wkt since TW already knows they are not eligible for the credit

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34	Run Diagnostics	Diagnostics icon at top of screen	Run Diagnostics again to ensure that there are no errors
35	Education Expenses		To determine qualified expenses, must subtract amount of scholarship/grant (\$5,000) from tuition payments (\$7,750). For AOC only, you can then add \$500 for textbooks & supplies. The \$850 for a new computer is not a qualified expense because it was not a course requirement. Use a scratch pad to document this calculation
	1040 Page 1 Screen Test as Tuition & Fees Deduction for both Kendra & Kara	Line 34	Link from 1040 Line 34 to 1040 Wkt 2. Go to Tuition & Fees as an AGI Deduction section
	1040 Wkt 2 Screen	Line for Kendra	Enter qualified expenses of \$2,750 next to Kendra's name. Books & supplies are only qualified if they must be paid to the institution as a condition of enrollment or attendance
		Line for Kara	Enter qualified expenses of \$318 next to Kara's name
	1040 Page 1 Screen	Line 34	TW calculates total qualified expenses of \$3,068 & transfers to 1040 Line 34. Note AGI & Refund Monitor. Delete this info before doing another comparison
35	1040 Page 2 Screen Test as LLC for both Kendra & Kara	Line 49 Forms Tree	Link to Form 8863 Page 2 from 1040 Line 49. Since both Kendra & Kara have education expenses, you must add a 2nd Page 2 by clicking on the + sign next to Page 2 in the tree. TW will automatically add 1 Form 8863 Page 1 to total the credits for both students
	Form 8863 Page 2 Screen	On Kendra's Forms 8863 Page 2 Lines 20 & 21 Line 22a-1 Line 22a-2 Line 22a-3 Line 22a-4 Line 23 Line 24 Line 25 Line 26 Line 31	Enter student & educational institution info in Part III: Enter Kendra's name & Social Security # Enter name & address of Northern Kentucky University YES NO University's Federal ID # NO YES NO NO \$2,750 (Books & supplies are only qualified if they must be paid to the institution as a condition of enrollment or attendance)

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STEP	DOCUMENT/TW SCREEN	BOX/LINE	LEARNING POINTS TO CHECK & EMPHASIZE
		On Kara's Forms 8863 Page 2 Lines 20 & 21 Line 22a-1 Line 22a-2 Line 22a-3 Line 22a-4 Line 23 Line 24 Line 25 Line 26 Line 31	Enter student & educational institution info in Part III Enter Kara's name & Social Security # Enter name & address of Boonton College NO NO Blank NO NO (Instructions say to go to Line 31 if answer is NO) Blank Blank \$318
	Form 8863 Page 1 Screen 1040 Page 2 Screen	Part II, Line 19 Line 49	TW calculates Nonrefundable Education Credits of \$614 in Part II on Form 8863 Page 1 TW transfers to 1040 Line 49. Note AGI & Refund Monitor. Delete this info before doing another comparison
35	Form 8863 Page 2 Screen Test as AOC for Kendra & LLC for Kara		Kendra is eligible for AOC, but Kara is not because she is not pursuing a degree program. Still use 2 Forms 8853 Page 2 to enter student & educational institution info for Kendra & Kara. All lines remain the same as above until you reach expense lines
		On Kendra's Form 8863 Page 2 Line 27	For AOC only, books & supplies are qualified expenses, whether or not they were purchased from the institution as a condition of enrollment. Computers, however, can only be included if they are a requirement for enrollment or attendance. Therefore, qualified expenses = \$3,250
		On Kara's Form 8863 Page 2 Line 31	Enter \$318 for LLC
	Form 8863 Page 1 Screen	Part I, Line 8 Part II, Line 19	TW calculates a Refundable Education Credit of \$925 based on Kendra's AOC in Form 8863 Part I. It also calculates Nonrefundable Education Credits of \$1,452 in Part II, which includes the nonrefundable part of Kendra's AOC + Kara's LLC
	1040 Page 2 Screen	Lines 49 & 66	TW transfers the Refundable Credit to 1040 Line 66 & the Nonrefundable Credit to 1040 Line 49
			Note AGI & Refund Monitor. This is the most beneficial option to claim the education expenses, so leave these entries in return

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STEP	DOCUMENT/TW SCREEN	BOX/LINE	LEARNING POINTS TO CHECK & EMPHASIZE
36	Direct Deposit Info		Since direct deposit bank info is so important, TW requires you to enter it twice
	Main Info Screen	Bank Account Info section	Routing # & Account #. As soon as you enter info here, TW will turn 1040 Page 2 red in Forms Tree so that you don't forget to enter info again
	1040 Page 2 Screen	Line 74	Routing #, Account #, & check "Checking" box
37	Run Diagnostics	Diagnostics icon at top of screen	No errors shown
38	NJ 1040 Page 1 Screen Note 1 Municipality Code	Municipality Code line	Enter Municipality Code for Denville (1408). Can obtain from NJ 1040 instruction booklet or from link on Preparer page on taxprep4free.org website
39	NJ 1040 Page 2 Screen - Note 2 Gubernatorial Elections Fund	Gubernatorial Elections Fund question	Check NO for Karl. Check YES for Kara
39	NJ 1040 Page 2 Screen - Note 3 Full-Time College Student	Line 11	Since Kendra meets the NJ qualifications for a full-time college student under the age of 22, taxpayer can claim an extra exemption on NJ 1040. Enter 1 on Line 11 Dependents Attending College
39	NJ 1040 Page 2 Screen - Note 11 Dependent Health Insurance	Line 13	Since all dependents are covered by health insurance, no need to use NJ Dependents Worksheet
40	NJ 1040 Page 3 Screen - Note 10 Use Tax	Line 45	Based on Kents' NJ Gross Income on NJ 1040 Line 28, the Estimated Use Tax Chart on Page 36 on NJ 1040 booklet shows they would owe \$64 in use tax. Can enter that amount on scratch pad off NJ 1040 Line 45 to document that amount came from Chart
41	NJ 1040 Page 3 Screen - Note 12 NJ Homeowner	Line 37b	Check box on NJ 1040 Line 37b that says "Check here if on October 1, 2012 you were a New Jersey homeowner"
	NJ 1040 Page 3 Screen -NJ Property Taxes	Worksheet F Line 1	Since the Kents meet the eligibility requirements to claim the NJ property tax deduction/credit, complete Worksheet F on 1040 Page 3. On Line 1, TW tells you amount of real estate taxes claimed for main residence on 1040 Sch A. Must still enter the correct amount to claim for NJ (same for NJ since not in PTR program)
		Line 37c or 49	TW will complete the rest of Worksheet F and determine that it is better for Kents to claim the \$50 Property Tax Credit on Line 49 than the Property Tax Deduction on Line 37c

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STEP	DOCUMENT/TW SCREEN	BOX/LINE	LEARNING POINTS TO CHECK & EMPHASIZE
42	NJ DD Wkt Screen - Direct Deposit	Direct Deposit & Direct Debit Information section	Click on box that says "Check here if you had a Federal refund & want the state refund deposited to the same bank account as listed on the Federal return"
43	NJ IRA Wkt Screen Sauk Trust Company IRA		TW generated a NJ IRA Worksheet in Forms Tree as soon as 1099-R for IRA was entered. IRA income will not be included on the NJ 1040 until this worksheet is completed
		Part I	IRA Worksheet tells you there were 2 IRA distributions. Enter 1 as "Copy number of the IRA you want to use this worksheet for." Line 2 already shows \$838 from 1099-R for Sauk Trust Company as "Total Distributions from IRA during the Tax Year." You have no information to complete the rest of the Worksheet, so just "get the red out."
	NJ 1040 Pages 2 & 3 Screens	Lines 19, 27, 38	NJ 1040 Line 19 Pensions, Annuities & IRA Withdrawals increased for Sauk distribution. However, the entire Line 19 amount was offset by the NJ Pension Exclusion on Line 27a. Therefore, Line 38 NJ Taxable Income did not change
44		Forms Tree	Add another copy of IRA Worksheet by clicking on + next to NJ IRA Wkt in Forms Tree
	NJ IRA Wkt Screen Yale Security IRA	Part 1	Enter 2 as "Copy number of the IRA you want to use this worksheet for." Notice that there is no distribution amount on Line 2. That is because the 1099-R for Yale Security IRA is for a roll-over, which is not taxable. Just "get the red out"
45	Run Diagnostics	Diagnostics icon at top of screen	No errors shown
46	Create e-file	Create E-File button under Diagnostics results	Should get message "E-Files created successfully"