

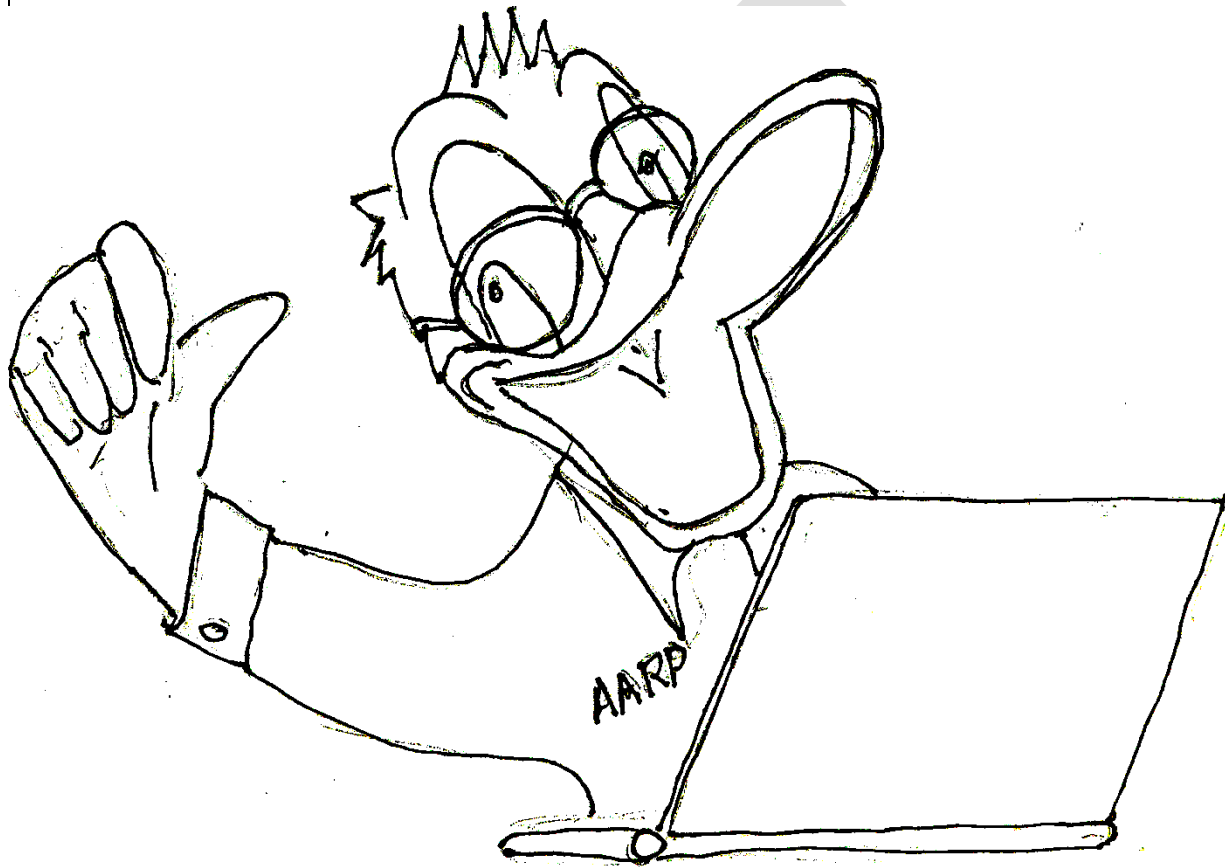
AARP TAX-AIDE – Tax Year 2011

COUNSELOR REFERENCE MANUAL

For TaxWise Online

(CRM-TWO)

TAX YEAR 2011, version 1



Prepared by the AARP CA Tax-Aide Training Committee

The CRM can be ordered from the Franchise Tax Board

The CRM can also be found at <http://www.ftb.ca.gov/individuals/vita/index.shtml>

And at Tax-Aide for CA-2 <http://aarpc2.org/forum>

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MISCELLANEOUS INFORMATION

WHERE TO MAIL RETURNS AND PAYMENTS

What	IRS	CA FTB
Electronic filing and balance due (mail only payment & voucher – not the return)	IRS (form 1040V) P.O.BOX 7704 San Francisco 94120-7704	FTB (form 3582) P.O.BOX 942867 Sacramento 94267-0008
Paper filing (including amended) and balance due OR refund (mail signed return)	IRS Fresno CA 93888-0102 (1040X 93888-0422)	FTB P.O. Box 942867 Sacramento 94267-0001
Paper filing (including amended) and nothing due OR refund (mail signed return)	IRS Fresno 93888-0002 (1040X 93888-0422)	FTB P.O.BOX 942840 Sacramento 94240-0002
Estimated payments (mail payment and voucher)	IRS (form 1040ES) P.O.BOX 510000 San Francisco 94151-5100	FTB (form 540ES) P.O.BOX 942867 Sacramento 94267-0031
Automatic six month extension no payment (mail just form)	IRS (form 4868) Fresno 93888-0002	No need to file
Automatic six month extension- with payment (mail form with check)	IRS (form 4868) P.O.BOX 7122 San Francisco 94120-7122	FTB (form 3519) P.O.BOX 942867 Sacramento 94267-0051

IRS & FTB TOLL FREE NUMBERS

(Do not share Volunteer Hotline numbers with taxpayers)

IRS NUMBERS

M-F 6am to 5:30pm, Sat 6am to 2pm, PST

Volunteer Hotline	800-829-8482
Tax Information	800-829-1040
Automated Refund Info	800-829-1954
Tax Forms & Publications	800-829-3676

FTB NUMBERS

M-F 8am to 4:30pm PST

Volunteer Hotline	800-522-5665
Volunteer Coordinator	916-845-4521
General Number	800-852-5711
Automated Service	800-338-0505

TaxWise (CCH) 1-800-411-6391 M-F 4:30am to 9:00 pm PST, Sat 5:30 to 3:00, Sun 10:00am-1:00pm TaxWise has a Knowledgebase that can be consulted for commonly asked questions.

REPORTING LOST OR STOLEN EQUIPMENT

In the event that the laptop **computer in your custody is lost or stolen**, you must report the loss/theft to your local coordinator AND AARP National Office, 800-424-2277, ext 6021 or 6027.

AARP VOLUNTEER INFORMATION

AARP Tax-Aide counselors should NOT act on information contained in “IRS Quality Alerts”. Tax-Aide will re-distribute it as a **CyberTax message** if relevant. To subscribe to CyberTax, send an email to Taxaide@aarp.org with “Subscribe” in the subject line; include your first and last name, service state (“CA- ”), ZIP code of residence, position title (counselor, instructor, etc.) and email address in the message text.

Volunteering with AARP Tax-Aide - direct them to www.aarp.org/taxaide, 888-687-2277, or put them in contact with your district or local coordinator.

AARP programs - Reverse Mortgages, Senior Community Service, Money Management, etc. direct to www.aarp.org or 202-434-2044.

Donations: (Tax-Aide counselors cannot accept money). The taxpayer can send a donation to AARP Foundation/Tax-Aide Program, 601 E Street, NW, B4-640, Washington, DC 20049 – put “**Tax-Aide – CA?**” on the memo line of the check!

WHAT AARP TAX-AIDE CAN AND CAN'T DO

The AARP Tax-Aide Program is limited in scope. Our Mission is to provide high quality free income tax assistance and tax form preparation to low and moderate income taxpayers, with special attention to those age 60 and older. Returns that include forms or schedules not listed below will not be prepared by Tax-Aide volunteers. Regardless of training and/or certification, if a counselor is not confident in their knowledge of forms and issues relating to a client's return, the return will not be prepared by that counselor. Clients will be "referred", either to another counselor or site or a professional tax preparer, when volunteers are not certain that a completely accurate return can be prepared.

California Resident tax returns can be prepared along with the Federal tax return. Part year/non-resident California returns will not be prepared. California returns for Domestic partners or SSMC (Same Sex Married Couples) will not be prepared.

Tax documents which may be brought in by Clients

W-2	Wages
W-2G	Gambling winnings
1098	Mortgage interest
1098C	Contribution of a Motor Vehicle
1098E	Student Loan interest
1098T	Tuition expense and Scholarships
1099-A	Abandonment of Secured Property
1099-B	Stock and Bond Sales
1099-C	Cancellation of Debt
1099-DIV	Dividends and Capital Gains Distributions
1099-G	State Tax refund; Unemployment and Family Leave
1099-SA	Distribution from HSA, MSA
1099-INT	Interest Income, early withdrawal penalty and foreign tax paid
1099-LTC	Long Term Care Benefits
1099-Misc	Miscellaneous Income (boxes 1, 2, 3, 4, 7 and 16 only)
1099-OID	Original Issue Discount Income (if fully taxable)
1099-PATR	Dist from Cooperatives (Rainbow Grocery only)
1099-Q	Distributions from Education Plans (529 Plans only, not Coverdell)
1099-R	Pension, annuity or IRA distributions (including RRB 1099-R and CSA 1099-R)
1099-S	Sale of Home (only if client has basis documentation)
SSA-1099	Social Security
RRB 1099	Railroad Retirement –Social Security Equivalent benefit- Tier 1
2120	Multiple support Agreement (evidence only, do not file)
5498	IRA Contribution Information (Data for form 8606)
8332	Release of Claim to Exemption for Child by Custodial Parent – attach to 8453
K-1 (1041)	Estates and Trusts (with Interest, Dividends and Capital Gains only). Funeral and Cremation Services.
K-1 (1065, 1120)	Partnerships and S Corporations (pass through Royalty, Interest, Dividends & Cap gains only)
RRB-1099	Railroad Retirement Benefits
POA's	Power of Attorney (2848 or other) – Attach to 8453
Alimony	Income or Payments
Consolidated brokerage statements incorporating any of the forms above	
Foreign Pension Income/Social Security (<i>out-of-scope</i>)	
Canada Pension Plan (CPP), Quebec Pension Plan (QPP), Old Age Security (OAS)	
IRA contributions/conversions, Traditional and Roth (except Simple and SEP)	

Federal Tax Forms and Schedules We Can Prepare (with associated worksheets)

1040	Federal Individual Income Tax Return
Schedule A	Itemized Deductions
Schedule B	Interest and Dividend Income
Schedule C	(C-EZ rules but up to \$10,000 expenses) (multiple Sch C's allowed)
Schedule D	Capital Gains and Losses (includes non-business bad debts)
Schedule E	LIMITED-Oil lease and Royalty income reported on 1099Misc with no expenses
Schedule EIC	Earned Income Credit
Schedule R	Credit for the Elderly or the Disabled
Schedule SE	Self Employment Tax
982	Reduction of Tax Due to Discharge of Indebtedness (OOS in some districts)
1040ES	Estimated Tax Calculation and payment vouchers for next year
1040ES/V	Estimated Tax Vouchers
1040V	Payment Voucher for Balance Due on Return
1040X	Amended Returns
1116	Foreign Tax Credit (Simplified Limitation Election only)
1310	Statement of Person Claiming Refund due a Deceased Taxpayer
2106-EZ	Employee Business expense
2210	Underpayment of Estimated Tax (only to eliminate penalty)
2441	Child and Dependent Care Expenses
4137	Social Security and Medicare Tax on Unreported Tip Income
4868	Extension of time to file (only if client does not have necessary papers)
4852	Substitute W-2 or 1099-R
5329 Part 1	Additional Tax on Early Distributions, Exceptions to penalty
5405	First-Time Homebuyers Credit Repayment
5695	Residential Energy Efficient Property Credit (Part 1 only)
8283	Non-cash Contributions over \$500 (Section A only-\$5,000 max)
8379	Injured Spouse Claim
8453	Transmittal Form for E-Filed Returns (8332, POA, 8949, 1098C)
8812	Additional Child Tax Credit
8822	Change of Address
8853 pg 2	Long Term Care Contracts
8862	Information to Claim EIC after Disallowance
8863	Education Credits
8879	E-file Signature Authorization
8880	Retirement Savings Credit
8888	Direct Deposit to Multiple Accounts
8889	Health Savings Accounts (OOS in some districts)
8917	Tuition and Fees adjustment
8949	
9465	Installment Agreement Request
ACH 1040	Direct Debit for Balance Due/Estimated Tax
W-4	Employee Withholding Worksheet/Certificate
W-4P	Pension Withholding Request
W-7	Application for ITIN (provide form only, unless you have been trained)

State of California forms and Schedules we can prepare (with associated worksheets)

540	California Resident Income Tax Return
540-ES	Estimated Income Tax Payments
540-V	Payment Voucher (for paper returns)
540X	Amended California Income Tax return
Schedule C	CA Business profit or loss
Schedule CA	Adjustments to Income
Schedule D	CA Capital Gain or Loss adjustment

Schedule W-2CG	Wage and Withholding Summary
Rent worksheet	Non-Refundable Renters Credit
3506	Child Care Credit
3519	Extension Payment Voucher (Only if payment is due)
3567	Installment Agreement Request
3582	Payment Voucher (for E-filed returns)
3805P	Additional Taxes on Early Distributions (Part I only)
4803e	Head of Household Schedule
5805	Underpayment of Estimated Tax (only to eliminate penalty)
CA8879	E-file Signature Authorization

What is out-of scope? – Everything Else. While it would be exhaustive to list all of the things that are out of scope, the following are some of the out of scope items. Any Return that is not an Individual Return.

Non-Resident returns (1040 NR)

Married filing Separately (exception-see “CA adjustments and Differences”)

Registered Domestic Partnerships (RDP)-Same Sex Married Couples (SSMC) returns.

State returns for part year residents or non residents (540 NR).

State returns for a state other than California

When we cannot do the State return, we should refer the client to a Tax Professional for BOTH the Federal and State returns

Rental Income, (except rents reported on 1099-Misc or K-1 without expenses)

Depreciation (**If there is depreciable property, we cannot choose to file without depreciation**)

Building, Room, furniture or appliances used to produce Income

Office in home for employer or taxpayers business

Computer or Equipment used for employer or taxpayers business

Vehicle expenses (except for standard mileage allowances)

Farm income, Fishing Income

Business income with expenses over \$10,000, depreciable assets (inc computer) or employees

Income from Partnerships, Trusts (with income other than pass through in-scope items)

IRA or Pension Distributions and Contributions requiring a form 8606

Taxpayers with hired Household Employees requiring Schedule H

Bankruptcy

Employee Business Expenses requiring more than form 2106EZ

Canadian Registered Retirement Plans

Foreign Earned Income

Foreign Pensions and Social Security (except for Canadian Social Security)

Mortgage Interest Credit Form 8396 Moving Expense

Casualty and Theft Losses

Sale of Business Assets

Investment Interest Expense

Alternative Motor Vehicle Credit

Calculation of Bond OID or BPA

Calculation of Basis or Single Category or Double Category method for Mutual fund sales

Lump Sum Distribution using 10 year averaging

Social Security Lump sum Distribution unless all taxed in current year

AMT (Alternative Minimum Tax) Form 6251 unless no AMT appears on return

Investment Income of Children-Form 8615

Childs Interest/Dividends reported on parent’s return-Form 8814 Qualified Adoption Expenses-Form 8839

Installment Sale Income-Form 6252

Non-Cash charitable contributions over \$5,000 or requiring appraisal

Uncollected social Security Tax Form 8919

Foreign Pensions and Social Security (except for Canadian Social Security)

TAXWISE ONLINE PROCEDURES

START OF SHIFT

- Check with the LC or ERO regarding the network status. If your site equipment is hard-wired,
 - All network cables must be attached
 - The print server computer (the laptop to which the printer is attached), if used, must be turned on and the printer turned on
 - The network printer (the printer connected to the router), if used, must be attached to the router and the router and printer turned on;
 - The wireless printer, if used, should be turned on
 - The router and/or network switch(es) should be turned on and operational before any workstation is turned on – only then turn on your computer.
- Now, turn on the computers
- If your site uses Wi-Fi, verify you can connect to the Internet.
- Open Internet Explorer (IE) and go to URL, <https://twonline.taxwise.com>. Log in to TaxWise Online with your ClientID, Username, and Password as given to you by your site manager or ERO – your password is defined by you on your first login.
- Maximize the screen (click the box at upper right) then press the F11 key to maximize the IE window by hiding toolbars (Pressing F11 again will toggle the toolbars back on).

SHUTDOWN PROCEDURES

- Logout of TWO by clicking the “Logout” button at the top right of the Internet Explorer window.

Follow the proper procedures for shutting down the laptops! Do not just pull the power and close the lid! Doing so runs the battery down to zero and adds extra boot-up time for the next user.

- Click “Start”
 - Windows 7
 - Click “Shut Down”
 - Windows XP
 - Click “Shut Down”
 - Select “Shut Down” in the “Shut Down Windows” window
 - Click “OK”
- Wait until screen turns completely black before pulling power plug and closing lid
- When power plug is pulled, ALL lights on keyboard should go out. If they don’t, you have not shut down properly.
- Replace laptop, power cord, mouse and mouse pad in laptop case; be sure the number on the computer’s bar code matches the number on the case
- Shut down printer(s) and return to box(es), along with extra printer paper and instruction manual
- Turn off/unplug router and/or switches and store them along with the cables

KEYBOARD SCREENS, ETC.


Before continuing in this document, it is important to point out the different roles the counselor can assume in TWO. The information provided below depends on the role the counselor is assigned. There are 7 roles: Admin, SuperUser, ReturnPreparer, Template Manager, Interviewer, Reviewer, and E-file Manager. The majority of counselors will assume the ReturnPreparer role. The roles and Toolbar choices available for counselor roles are outlined in the following table

(only the most common roles for counselors are listed – for other roles, refer to the TWO User Manual):

Tasks that can be done via Tool Bar Icons	Return Preparer	Super User	Reviewer
Start a New Return	Yes	Yes	Yes
Open Return	Prepared by you	All	All
Submit e-files	No	Yes	Yes
View Acks	No	Yes	Yes
Create Client Letters *	No	No	No
Create Return Templates *	No	No	No
Return Query	Prepared by you	All	All
TWO Reports	No	Yes	No
Reports Server	No	Yes	No
Change Program Settings **	Subset	Subset	Subset
Manage Users *	No	No	No
Print Checks	N/A	N/A	N/A
TaxWise University	Yes	Yes	Yes
Live Chat (Tech Support)	Yes	Yes	Yes
Help	Yes	Yes	Yes
Blog	Yes	Yes	Yes
Hot Topics	Yes	Yes	Yes
Logout	Yes	Yes	Yes

* The Administrator or counselor with Administrator privileges can accomplish these functions

** The Administrator or counselor with Administrator privileges has full access to all Program Settings

- TaxWise has a number of ways to perform a function; you need to decide which is most convenient for you (e.g. using the mouse versus a navigation key versus an icon)
- AARP Tax-Aide uses TaxWise as a “forms based” package (An “Interview mode is available). You first complete the MAIN INFO form based on the Intake/Interview Sheet, last year’s return, and/or “proforma” (last year’s carry forward return); then complete each of the forms based on the information that the taxpayer(s) provides you by selecting the form from the “forms tree” – the necessary information about the taxpayer(s) and any dependents flows to the individual forms from the MAIN INFO form.
- Enter all dates in the format mmddyyyy (note, four digit years), TaxWise will insert the slashes.
- Amounts can be entered with or without cents, TaxWise will round to the nearest dollar. If rounding is difficult, it is better to enter the cents value and let TaxWise do the rounding.
- The general rule is to NOT use any punctuation, double spaces or dashes; however there are some exceptions. For bank account numbers enter dashes but not spaces or symbols.
- When a “pick list” of values is available for a field, highlight the field and click the drop down arrow to display the list and then click on the desired value. Check that result is as desired.
- Linking is accomplished by clicking on the  icon in the field from which linking is to occur.
- Insert/Delete rows is accomplished by clicking in the row to be deleted/added and pressing CTRL-I/CTRL-R, respectively. Sorting cannot be done in tax forms, only worksheets.
- Cursor can be located by the arrowhead on the right-hand side of the field.

- Understanding the colors of the fields in TaxWise is important. The following colors are used in TWO:
 - Yellow** – Calculated entries or linked to another form
 - Light Gray** – Non-calculated entries
 - Dark Blue** – Overridden entries
 - Orange with Red Underline** – Required entry or validation.

KEYBOARD SHORTCUTS

The following table describes the use of Function keys and Shortcut keys in TWO.

Command	Description
F1	Program Help
F3	Toggles “Red” on and off in a field (Required/Not Required)
F8	Toggles “Override” *
F9	Links a field to associated forms
F11	Minimizes/Maximizes Internet Explorer display
Ctrl-Enter	Toggles “Override” *
Ctrl-Spacebar	Toggles “Red” on and off in a field (Required/Not Required)
Ctrl-E	Jumps to next required entry
Ctrl-I	Inserts a row
Ctrl-R	Deletes a row
Useful Windows Shortcuts (not specific to TWO)	
Ctrl-C	Copies a highlighted selection
Ctrl-X	Cuts a highlighted selection
Ctrl-V	Pastes the selection at the mouse cursor point

* Not all users will be able to override – the Administrator has the capability to prevent users from overriding. **The standard setting for ReturnPreparer users is to not allow overriding.**

The following table describes the main differences between TWD and TWO. Also refer to the TWO User Guide, which can be accessed from the TWO Home page.

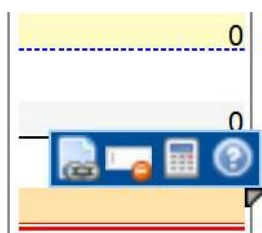
ITEM	TAXWISE ONLINE	TAXWISE DESKTOP
Insert Row	Ctrl+I	Alt+Insert
Remove Row	Ctrl+R	Alt+Delete
IRS Form Instructions	No key available	Shift-F1
Prior Year Carry Forward	No preliminary steps. Prompted to carry forward data when creating a new return	Must restore returns to prior year TaxWise and then carry forward returns prior to creating new returns.
Printing	Three pre-defined print sets plus the ability to create customized Federal and State print sets	Ability to create customized Federal and State print sets
Internet	High-speed required	High Speed Recommended
Session Return Storage	Stored on CCH servers	Stored locally and/or on ERO transmitting computer
End-of-year Return Storage	All returns stored on CCH servers	Returns must be backed up and sent to state TCS for storage
Federal/State Updates	Applied automatically	Updates must be downloaded and installed to computers, manually
Client Letter	Very limited client letters – no state information and no conditional statements	Wide variety of client letters with conditional statements.
Training	Year-round training via twonline.taxwise.com/training	Year-round training via the Training username. Must install TaxWise on computer

Moving around on forms in TWO is normally accomplished by use of the Tab key, mouse pointer, or the Enter key – the PgUp and PgDown keys are not applicable to TWO. You can also use the Scroll Bar on the right-hand side of the form to quickly move up and down through the form to find the field you want.

Note that the “link” icon next to certain fields provides functionality as follows, based on the field that you are in – all of the shown functions are not always available, but are dependent on the particular field you are in. Below is a copy of the Schedule A, Real Estate Taxes field – the Link Icon at the right-hand side of the field has been “clicked” and the choices are shown.

6 Real estate tax remainder from Form 8829
 Real estate tax remainder from part rental worksheets
 Real estate taxes on your principal residence, not listed above

TSJ:



The choices, from left to right, are:

- Link choices** – provides list of Open or New links that can be created for this field
- Estimated** – provides a toggle to make the field required/non-required
- Calculator** – provides a calculator for this field
- ?** – provides context sensitive help for this field

PULL DOWN MENUS

There is no TWO equivalent to the Pull Down Menus in TWD. The Pull Down Menus in TWO are associated with Internet Explorer functions.

TOOLBARS

The TWO Toolbar icons are dependent on the context that you are using, e.g., you will get one set of icons if you are not in a return and another set if you are in a return. It is also dependent on the role you are assigned, e.g., Administrator, Return Preparer, etc. These roles were described, earlier.

The following Toolbars are available in TWO for the most common user roles. Refer to the TWO User Manual for other roles. In most cases, the icons are self-evident. The Settings and icons at the right-hand side of the Toolbar when not in a return do the following:

Settings – allows the user to make screen display settings

Live Chat – Lets you participate in a chat with a TaxWise support person

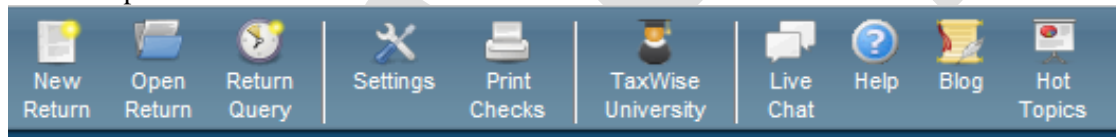
Help – Takes you to the Help Center page

Blog – Takes you to the TaxWise blog on the Internet

Hot Topics – Takes you to the TaxWise Support Site

COUNSELOR NOT IN A RETURN

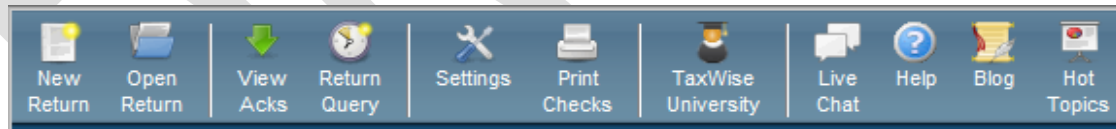
ReturnPreparer



SuperUser

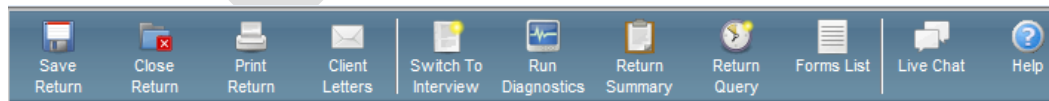


Interviewer



COUNSELOR IN A RETURN

All Roles



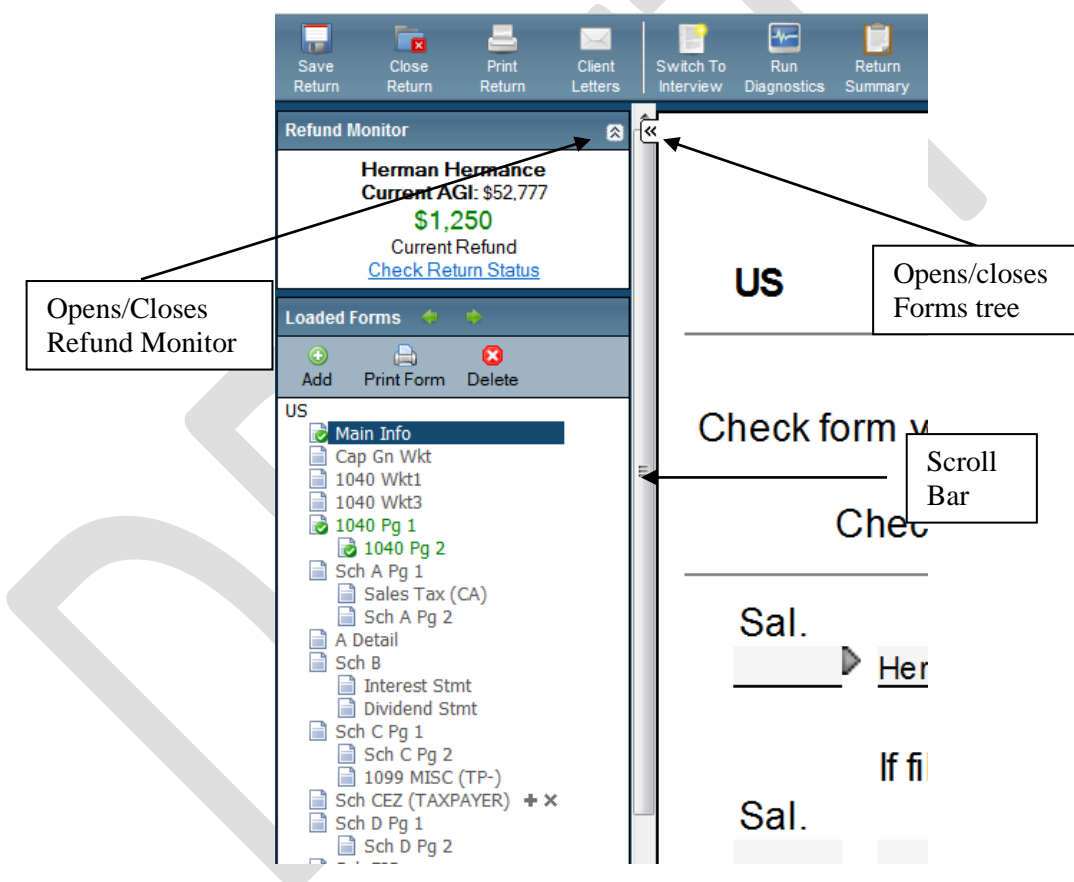
Client Letters – Allows you to select the Client Letter to print with the return

Forms List – displays a list of forms that can be added to the return

SCREEN LAYOUT

Left Side


- **Refund Monitor** – if activated, indicates Federal AGI refunds/amounts owed on current return. Turn on/off by clicking the double caret in the “Refund Monitor” title bar.
 - **Clicking on the “Check Return Status” link will open a window with more detail on the return and also provide state information.**
 - **Forms Tree:**
 - Highlights the form currently in the Work Area on the right side of the screen
 - Provides listing of forms that have been pre-loaded and added.
 - Identifies status of forms listed:
 - Yellow exclamation mark - Form is incomplete
 - Green check mark - Form is complete.
 - Blank - Form available, but not necessarily required.
 - Turn on/off by clicking the double arrowhead above the scroll bar.
- Use caution as not all forms will be visible, use the scroll bar to move down/up the tree





- **Functions below the “Loaded Forms” title bar**
 - Add – Adds a form to the tree and the work area. This is the same as clicking “Forms List” on the toolbar
 - Print Form – Displays a list of forms in the current return and allows you to print one form.
 - Delete – Displays a list of forms in the current return and allows you delete one.
 - Left and right green arrows next to “Loaded Forms” – allows you to move Up or Down in the tree.
- “+” and “X” next to a form – clicking “+” allows you to add another copy of the form. Clicking “X” allows you to delete the form.


Right Side – TaxWise Work Area:

- Displays the current form (which is also highlighted in the forms tree)
- Context sensitive help for the form and/or field is activated by clicking the arrowhead on the right of the field, e.g.,

Miscellaneous Income		2010
Worksheet is for the: <input type="radio"/> Taxpayer <input type="radio"/> Spouse		
Property <input type="text"/>		
<input type="text"/>	1 Rent 	2 Royalties <input type="text" value="0"/>
<input type="text"/>	3 Other income <input type="text" value="0"/>	4 Federal withholding <input type="text" value="0"/>
<input type="text"/>	5 Fishing boat proceeds <input type="text" value="0"/>	6 Medical payments <input type="text" value="0"/>

Click here 

Miscellaneous Income		2010
Worksheet is for the: <input type="radio"/> Taxpayer <input type="radio"/> Spouse		
Property <input type="text"/>		
<input type="text"/>	1 Rent 	2 Royalties <input type="text" value="0"/>
<input type="text"/>	3 Other income <input type="text" value="0"/>	4 Federal withholding <input type="text" value="0"/>
<input type="text"/>	5 Fishing boat proceeds <input type="text" value="0"/>	6 Medical payments <input type="text" value="0"/>

To get this 

ADDITIONAL FORMS

All normally required forms have been preloaded on the Tree. Look there first if a form is needed.

Additional Forms may be accessed in either of two ways:

1. By clicking on the “Forms List” on the toolbar.
2. By clicking on the “Add” icon below the “Loaded Forms” toolbar
3. By clicking on the “+” in the forms tree next to the form you wish to add

Using method 1 or 2 opens a search box that lets you enter part of the name of a form. The result will then be a list of forms that contain the phrase typed. For instance, typing “1040” will display Form 1040, Form 1040A, Form 1040 Worksheets, etc.

The screenshot shows a window titled "Add a Form" with a search bar containing "1040" and a "Clear" button. Below the search bar is a table with two columns: "Form" and "Description". Each row in the table starts with a blue "Add" link.

	Form	Description
Add	1040 Wkt2	Student Loan, Education Worksheet
Add	1040 Wkt4	Foreign Earned Income Tax Worksheet
Add	1040 Wkt5	Bonus Depreciation / 179 Worksheet
Add	1040A Pg 1	US Individual Income Tax 1040A Pg 1
Add	1040ES Pg 1	2011 Estimated Tax Vouchers Pg 1
Add	1040EZ	US Individual Income Tax 1040EZ
Add	1040NR Pg 1	Nonresident Alien Income Tax Pg 1
Add	NREZ Pg 1	Nonresident Alien Tax 1040NR-EZ Pg 1
Add	1040SS Pg 1	US PR Additional Child Tax Credit Pg 1
Add	1040V	Balance Due Payment Voucher
Add	1040X Pg 1	Amended Individual Income Tax Pg 1
Add	ACH 1040/ES	Ach Debit of Balance Due/Estimate E-file

Or, you can click the “Show all forms” link to display all forms.

The screenshot shows the "Add a Form" window with an empty search bar and a "Clear" button. Below the search bar, the text reads: "Type at least two characters above to find the form to add" followed by a blue underlined link "Show all forms".

- As forms are loaded, they are also added to the TaxWise tree at the left side of the screen.

HELP

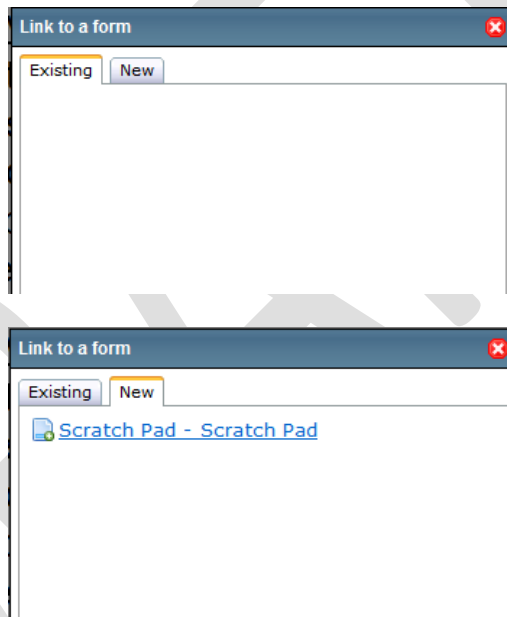
TaxWise Online has several **Help** features:

- The Context Help can be accessed as described before, by clicking the arrow head to the right of the form for which you require help
- General program Help can be accessed by clicking “Help” on the Menu Bar. That will take you to the Help Center page where you can access a variety of Help resources, e.g., Program Help, State Help, User Guide, IRS and State forms and publications, business codes, etc. To get back to the return you were creating, just close the Help Center page window.

CONFUSING SITUATIONS IN TAXWISE ONLINE

- ***Linking from a yellow field with a default form***
Some fields may be linked to another form by default (e.g. Sch C-EZ Line 1 is linked to 1099MISC by default). If you need to link to a scratch pad, you must link by clicking the arrowhead on the right-side of the form and then selecting the scratch pad.

- **Field is yellow resulting from linking in error**
Follow the link to the form and delete it by clicking the “X” next to the form in the Forms Tree.
- **Taxable Income but nothing below line 43 on 1040 page 2**
If the capital gain and qualified dividends taxed at zero percent rate are greater than the taxable income shown on line 43, all the following entries may be zero, and zero is not printed.
- **Unintentional Override**
If you make an entry in a field, and then link from the field, the field is automatically overridden by the original entry and the link entries will not show. As a ReturnPreparer, you will have to get help from a user with a role that allows them to override that entry, e.g., a SuperUser or Reviewer. Your site manager can identify those counselors.
- **Interest/Div worksheet**
Before making an entry you must tab once to get to the first field or click in the first field
- **Linking**
When you link to a form, you may not see any forms to link to. That is because you are on the wrong tab – there is an Existing tab and a New tab. If the form hasn’t been preloaded you will have to click the New tab. If you want to go to an existing form, you will have to click the Existing tab.



REFERENCE MATERIAL

HOME PAGE -

Clicking on the Help icon or pressing F1 while in a return takes you to the TWO Help Center. There, you'll find numerous links to Program help, TW support, reference materials, IRS and state websites, etc. To get back to the return, close the Help Center. A figure showing the home page help section is below.

The screenshot shows the 'Help Center' page with a search bar at the top. Below the search bar, there are several categories of links:

- General Help & Assistance**
 - Program Help
 - State Help
 - 2010 User Guide
 - TaxWise Speedtest
- Quick Reference**
 - 1040X Mailing Addresses
 - IRS Forms and Publications
 - IRS Publication 3189
 - IRS Reject Codes
 - IRS Sequence Numbers
 - Publication 4012
 - Report Descriptions
 - Talk Points for 2010
 - Business 1099R and Country Codes
 - E-file Forms and Schedules
 - Refund Cycle Chart
 - State Interviews
- Tax and Accounting Association Sites**
 - American Institute of Certified Public Accountants
 - National Association of Enrolled Agents
 - National Association of Tax Professionals
 - National Society of Accountants
 - Small Business Administration
- Publication Sites**
 - The CPA Technology Advisor
 - CPA Magazine
 - Web CPA
 - Pub 1345 Handbook for Electronic Return Originators
- Government and Taxation Information Sites**
 - IRS Forms and Publications
 - FedWorld
 - IRS
 - Social Security Administration
 - Tax Talk Today
 - Puerto Rico Tax Site (Departamento de Hacienda)
- State Tax Sites**
 - Alabama Department of Revenue
- Social Security Administration**
 - As a tax preparer, you may need information and help from the Social Security Administration. You may contact the Social Security Administration by phone at 1-800-772-1213 or visit their website at www.ssa.gov.

At the bottom of the page, there is a link for 'About TaxWise Online'.

Steps to follow in researching a topic

- Question the client thoroughly to ascertain all pertinent facts. Review the Intake/Interview sheet
- Begin your research by using Publication 4012 which provides quick access to most common questions in a format with which we are familiar. If not found, turn to Pub 17. Start in the Index looking under a main heading first and then a subheading. You will find that you will be able to locate information more readily if you become familiar with the topics covered in each publication
- If not found, check with more experienced counselor
- Use Volunteer Hotlines listed on Page 1

You should have the following reference material to allow you to find the correct tax law and interpretation:

- Publication 17
- Publication 4012
- 1040 Instructions
- 540 Instructions

Peruse all Cyber-tax bulletins as they are received so that you are familiar with their content. Make notations on your copies of reference materials, or file updates as quickly as possible.

In addition there are many web sites that have useful information

Tax Preparation Assistance Sites	
To locate tax basis: Historical Stock Quotes (Big Charts)	http://bigcharts.marketwatch.com/historical/
Stock Information and Historical Quotes (Yahoo Finance)	http://finance.yahoo.com/
Salvation Army –Donation Value estimates	http://www.satruck.com/donation-value-guide
All States Public Records Search – Useful for real estate taxes paid for other counties as well as State and County information	http://publicrecords.onlinesearches.com/
World Tax Service customized Google Tax Research Site to search tax websites to find answers to tax questions	http://taxlawfirm.googlepages.com/google_tax_search
IRS Web Site – Publications, forms, and answers to tax questions	http://www.irs.gov/
Franchise Tax Board (State of California) Web Site – Publications, forms, and answers to questions myFTB -- Get information on estimated tax payments made, balance due, CA wage and withholding information (requires prior year's state tax information to register for a CSN)	http://www.ftb.ca.gov/
Board of Equalization – Sales tax rate information	http://www.boe.ca.gov/sutax/pam71.htm

WHAT IF?

TWO does not have the “What If” functionality that is part of TWD.

STEPS IN TAX RETURN PREPARATION

INTERVIEWING THE CLIENT

- Review the Client’s Intake/Interview & Quality Review sheet.
- Explain the tax preparation process.
- Confirm information provided by the client on the Intake/Interview sheet and complete Section B if required.
- Get client to provide any information that they might have missed on the Intake sheet
- Review all supporting documentation e.g. Social Security Numbers, Identification, W-2, 1099, etc.
- Make sure taxpayer isn’t expecting any additional documentation, e.g. 1099INT, 1099 DIV, 1099B, brokerage statement.

ORGANIZING YOUR WORK

While or after “interviewing” the client, sort all supporting documents by type in the following sequence:

Supporting Document	Enter in Form (on Form Tree)
Last year’s tax return	MAIN INFO, carry forwards
Social Security Cards, ID card	MAIN INFO
Income	
W-2s – wages	W-2
1098-T Taxable Scholarship	1040 Wkt1
Broker Statement	Interest/Dividend Stmt, Cap Gain Wkt
1099-INT – interest	Interest Statement
K-1’s and Funeral Plans	Interest/Dividend Statement
1099-DIV – dividends	Dividend Statement
1099-G State Tax Refund postcard	State Tax Refund Worksheet
Alimony Received	1040, Page 1 - Applicable line
1099-MISC box 7 – self employment (aka Business Income)	1099-MISC , from Sch C-EZ
1099-B Stock sales	Cap Gain Worksheet
1099-S – sale of home (if reportable)	Cap Gains Worksheet
1099-R /RRB 1099-R(green), IRA /Pensions	1099-R
1099-G Unemployment benefits	1099-G Wkt
SSA 1099 Social Security	1040 Wkt1 (Social Security Worksheet)
RRB 1099(blue) Railroad Retirement tier 1	1040 Wkt1 (Social Security Worksheet)
1099-MISC Box 1 or 2 no expenses	Link from line 3, 4 Schedule E
1099-MISC box 3 – if non-business income	Link from Line 21 to 1099-Misc
W-2G Gambling Winnings	W-2G
Adjustments	
Alimony Paid-canceled checks	1040,page 1 - Applicable line
IRA contribution	IRA worksheet
Lender Statement Student Loan Interest	Wkt2
Itemized Deductions	
Medical and Charitable Deductions list	A Detail form
Property tax bill, Car Registration	Schedule A
1098 Mortgage interest	Schedule A
1098T Tuition Statement	8863/ Wkt1 /Wkt2
Payments and miscellaneous	
Canceled checks Estimates paid	F/S Tax Pd
Any other papers the client brings	Various

STARTING A NEW RETURN

- On the TaxWise Online toolbar, click “New Return.”
- The “Enter Social Security Number” screen will appear. Enter and confirm the primary SSN for the tax return and click the “Go to tax forms” button. If Carry forward data exists for the social security number from last year’s return, a “Create New Return” window will appear that notes prior year data exists and giving you the options to “Use Carry Forward” or “Create New Return.” You would normally “Use Carry Forward.”
- The following are acceptable by AARP Tax-Aide as Social Security Number verification used in conjunction with a picture ID:
 1. Social Security Card
 2. Social Security Benefit Statement Form 1099SSA or RRB1099
 3. A letter from the Social Security Administration
 4. A prior Year tax return. Carry Forward Pro-Forma is equivalent to a prior year return
 5. An IRS letter assigning an ITIN
 6. A federal or State Employee W-2 or 1099(includes Post Office)
- Interview mode Option. This is available, but not recommended. However it may be used for training. In this mode, you will be led through a series of questions, that when answered will populate the Main Info Screen and other document screens. There are three problems with Interview Mode: 1. It takes much longer to accomplish a return, 2. When you go through Interview Mode you will partially fill out some forms, then will have to return to the form later and complete it, after you exit Interview Mode, and 3. If you inadvertently add a form in Interview Mode which you don’t need, it is impossible to remove the form until you go back into Interview and remove the use of the form – a confusing situation for many counselors. To access the Interview feature, check the box “Go To Interview” on the ”Create New Return” screen.. You can switch between Interview and Tax Forms mode by clicking the icon on the Toolbar.

PROFORMA/DATA CARRYFORWARD

- A “proforma” return should exist if last year’s tax return was prepared by the local Tax-Aide site/district under the same EFIN or you used TWO in the prior tax year. After you initially enter the taxpayer’s Social Security Number, you will be given the choice to “Carry forward data” from last year’s return. Data entry will be simplified as the return will be populated with most of the “indicative” information such as names, dates of birth, telephone numbers, W-2s, 1099s, payers of interest and dividends, etc. from last year’s return. Only a few dollar amounts, such as capital loss carry-over, charitable contribution carryover, Summary Form, and 1099-R Simplified General Rule are populated.
- The key fields that are carried over will be “red”, as a reminder that you must review the information with the taxpayer, either confirming that they are still accurate (use F3 or CTRL-Spacebar to remove the red) or updating them as needed. All dollar amounts must be entered from the current year tax documents.
- You will need to remove and/or add forms as appropriate (e.g. the taxpayer changed employers and hence received a different W-2, in which case you must delete the W-2 for the previous employer and add a W-2 for the new employer).
- You may also need to delete lines (rows) from a schedule (e.g. a dependent is no longer to be included in the return or interest was not received from a payer used in the prior year – press CTRL-R to delete the row).
- While “Carry forward data” makes completion of the return much faster and more accurate, you do need to check the return carefully to ensure that any year-to-year changes have been reflected and that unused entries/forms are not included in the new return. Otherwise the sequence of actions to complete the return is the same as though you are doing the return without “proforma”.
- Since Carry Forward information is last year's tax return, this is sufficient validation for Names and Social Security Numbers. It is suggested that The Intake and Interview sheet be marked with “P” for Proforma preceding “Names and Social Security Numbers” to advise the Quality

Reviewer of the verification. However, if there are changes in spouse or dependents (or ITIN changed to SSN), mark with “P +” so Quality reviewer can look at the new or changed Cards.

DRAFT

MAIN INFO FORM

- Enter all pertinent information; if a “proforma” return is being used, use F3 or CTRL-Spacebar to clear the red after confirming the information is correct for this year.
- Do not use any punctuation except as noted. Commas, &’s, slashes and periods are not allowed. Double spaces are not allowed.

Name field

There are four Name fields:

- Salutation field is optional. Enter Mr, Mrs, etc or leave blank (recommended)
- Enter Taxpayer’s first name(s), initial and last name as shown on the Social Security Card (dashes allowed).
- For returns with carry forward data, use the name as entered and successfully filed last year
- When the return is e-filed, the first check is that the first four characters of the last name match the IRS’ records. When the social security card indicates multiple names, enter all but the last in the first name field, leaving a space between each name (e.g. SAM HUNTER ALBERT). For some Hispanic names, the last two names may constitute the legal last name, in which case they should both be entered in the last name field. It is good practice to enter questionable names as shown on the Social Security or ITIN cards in the free-form note field at the bottom of the MAIN INFO form for use by the ERO in case the name rejects. Refer to examples in Pub 4012.
- Enter the spouse’s first name and initial for Married Filing Jointly only Enter the last name only if it is different than the taxpayer’s; once the spouse’s name is entered, his/her SSN will become a required field. See “Starting a New Return” for acceptable means of SSN verification.

Mailing Address:

- Name line 2– this is used **ONLY** if address requires four lines or, in the case of a **deceased taxpayer**, when you must enter the name of the surviving spouse or executor.
- Current mailing address – enter the taxpayer’s street address (fractions allowed) or Post Office Box

If the street address contains an Apartment Number or PMB, update page 1 of the CA540 now so that is not overlooked

- ZIP code – entering the ZIP code automatically fills the city and state, however you may need to overwrite the city if the ZIP code is shared by multiple cities If you get a popup box for a new ZIP code, make sure that you have typed a valid ZIP code
- Foreign Addresses are entered in a separate section lower on this form. If foreign address is used, notify ERO for separate e-filing

Telephone Numbers:

Enter taxpayer’s daytime/evening/and especially cell phone numbers. We need a telephone number to call the taxpayer if the return is rejected or there is an error. This field may be left blank if they do not have a telephone.

Birth Date:

This is required for each taxpayer to calculate eligibility for various credits, and must agree with the IRS’s records if certain credits are claimed.

Taxpayer Occupation(s):

- The default for the taxpayer is RETIRED; the field as appropriate
- If this is a joint return, enter the spouse's occupation
- DECEASED is the appropriate entry if the taxpayer or spouse died during or after the tax year

Taxpayer Information

- Special Processing, used by military, is out-of- scope. Refer to military base
- Exclusion of Puerto Rico Income is out-of-scope
- Determine if the taxpayer and/or the spouse qualify as blind or totally disabled. If so check the appropriate boxes. A letter from physician/optometrist should be kept by the taxpayer if this is the first time they qualify as blind or totally disabled.
- If the taxpayer or spouse **died before filing a return:**
 - If filing MFJ and the Primary has died, use their SSN to Carry forward data. Before making any further entries, enter the living spouse as primary and the deceased as secondary. This will help Carry Forward for next year.
 - Enter date of death in the appropriate field. Deceased taxpayer returns take extra time to process.
 - If this is a joint return (based on the filing status of MFJ), TaxWise will automatically show the return as being filed by surviving spouse
 - The combined name fields must not exceed 30 characters when there is a deceased taxpayer. Jonathan & Elizabeth Smith would be 26 characters counting all spaces. If names exceed 30 characters, delete middle names, abbreviate first names, or truncate names.
 - Enter name of surviving spouse OR the name and address of person handling the estate in the Name line 2 of the mailing address. Enter % space before the name.

Presidential Campaign

Check the appropriate boxes if the taxpayer and/or spouse wish to direct this amount of their tax to the Presidential Campaign Matching fund.

Filing Status

- Click and enter correct filing status.
- A married taxpayer, whose spouse and dependents reside outside of the US AND do not have social security numbers or ITINs, is considered married and must file MFJ or MFS. Leave the SSN field blank and when the return is complete and printed, write 'NRA' (Non-Resident Alien) in the SSN field and paper file as MFS. MFJ requires ITIN's and election to be treated as a resident-out-of-scope.
- MFS returns cannot be done unless all seven conditions, listed under "CA Adjustments and Differences" are met.
- Head of Household- Enter a name of a qualifying person only if they are not a dependent.

Deceased Spouse/Taxpayer

This information is listed in the individual sections, but is repeated here.

- Address: Name line 2– this is used ONLY if address requires four lines or in the case of a deceased taxpayer when you must enter the name of the surviving spouse or executor. Do not use "%"
- Occupation: DECEASED is the appropriate entry if the taxpayer or spouse died during or after the tax year
- Taxpayer information: If the taxpayer or spouse died before filing a return
 - Enter date of death in the appropriate field. Deceased taxpayer returns take extra time to process.
 - If this is a joint return (based on the filing status of MFJ), TaxWise will automatically show the return as being filed by surviving spouse

- The combined name fields must not exceed 30 characters when there is a deceased taxpayer. Jonathan & Elizabeth Smith would be 26 characters counting all spaces. If names exceed 30 characters, delete middle names, abbreviate first names, or truncate names.
- Enter name of surviving spouse OR the name and address of person handling the estate in the Name line 2 of the mailing address. “%” should not be used as it results in a reject.
- Deceased person-signature requirements
 - A Power of Attorney (POA) expires at time of death
 - A surviving spouse will sign the return and add “as surviving spouse” after their name.
 - A personal representative or executor will sign their own name with their title.
 - A person other than Surviving spouse or personal representative will sign their own name
 - Form 1310 Refund due a deceased taxpayer will be required if the return is filed by other than a surviving spouse and there is a refund.

Exemptions

Verify if someone else can claim the taxpayer or spouse (if applicable) as a dependent. Check appropriate boxes.

Dependents

- Complete information as necessary, do NOT enter last name if it is the same as the taxpayer’s
- Enter youngest first so that the EIC worksheet uses the most eligible children
- Birth Date – without the slashes
- Social Security Number – without the dashes
- Relationship to taxpayer – choose from the pick-list or enter first letter.
- Mo in Hm (home) – choose number of months the dependent lived in the home from the pick list. If you enter 1 and tab, 12 will appear in the field (use 12 for dependents who were born or died during the year).
- Code Field – enter the appropriate code from the dropdown list. Use “Context Sensitive Help” if you cannot see the list. For a noncustodial parent claiming a child who did not live with them for more than 6 months, be sure to enter Code 2. Use Code 1 for a grandchild that is a Qualifying Child. For a custodial parent that has signed an 8332 and can no longer claim the child as a dependent, but can claim EIC and HOH, enter code 0.
- DC = Dependent Care Credit. Check this ONLY if the taxpayer has dependent care expenses for the person (this adds form 2441 to the Forms Tree)
- EIC = the rule is to always check the box for dependent children, as TaxWise will open the necessary forms and make the correct decision regarding EIC
- CTC = Child Tax Credit. This is a calculated field which TaxWise will complete
- If there are more than four dependents:
 - Enter the first four on the MAIN INFO form (make sure that those who qualify for EIC are entered there)
 - Open 1040 page 1, click on dependent line and link, by clicking the arrowhead on the right-hand side of the field, to “Addl Deps – Form 1040 line 6c” and add dependents.
- If a dependent child has more than \$1900 of investment income the child may be subject to the Kiddie tax. Form 8615 and the return of the child are out-of-scope.

Noncustodial Parents

If a noncustodial parent is to claim a dependent along with the CTC, they must have a Form 8332 signed by the custodial parent relinquishing their right to claim the dependent. A custodial parent can NOT give away HOH status, EIC, or the Dependent Care credit. This document must be transmitted to the IRS with a Form 8453. Form 8453 will be generated by checking the Form 8332 box under noncustodial parents (which becomes red if Code 2 is entered to show that the child does not live with the taxpayer). Two copies of the 8453 and 8332 shall be given to the ERO for transmittal to the IRS.

A custodial parent can revoke the “Release of Claim to an Exemption” by completing Part III of Form 8332. The revocation is effective in the year after notice is furnished to the noncustodial parent. A copy of this revocation must be transmitted with the return for each tax year you claim the child as a dependent as a result of the revocation. Transmit with a Form 8453.

State Information

- The default is “CA, Full Year Resident”
- CA non-resident or CA part-year resident returns are *out-of-scope*
- We should always prepare and file a CA return if a federal return is being filed. However there will be situations where the taxpayer(s) lived in another state the prior year and are not required to file a CA return or they do NOT want a CA return filed or have already filed a “Ready Return”, in which case simply check the appropriate box AND remove the Full year resident “CA” entry.

Type of return

The default is e-file – there should be VERY few instances where a return cannot be e-filed. Refer to Final Steps for the procedure to change from e-file to paper.

Bank Products

Bank Products (RAL-Refund Anticipation Loan, RAC-Refund Anticipation Check, as well as Audit Shield and Fee Collect Money Card) are not used by Tax-Aide.

Bank Account Information

- Generally you will complete this section after all other entries, as it ONLY applies if the taxpayer(s) have a refund due OR want to pay their balance via an ACH direct debit.
- If The Federal Return is a Balance due, complete this section only if they want to pay their balance due by ACH direct debit.
- Enter bank account number without spaces or special symbols, but include hyphens.
- See FINISHING THE RETURN for detailed instructions.

Practitioner Pin

The ERO PIN has been entered as a default. The Taxpayer PIN (12345) has been entered for both taxpayers as a default. It is not necessary to remove the PIN for the spouse if there is no spouse. Enter the date in the required field. Form 8879 electronic signature documents will be generated.

Identity Protection PIN

If a taxpayer has experienced identity theft, and has previously worked with the IRS to fix this, the IRS will issue a CP010 letter with a onetime use PIN for filing a return. Enter that PIN here

Third Party Designee

If we have an elderly client that is accompanied by their adult child and they client seems to depend on the child for understanding your interview questions, the client may be asked if they would like to designate someone to receive any correspondence from the IRS. If they agree, they will have to provide a name, phone number and PIN so that the third party may discuss the return with the IRS. AARP Tax-Aide counselors may never be the third party.

NOTE: The following paragraphs may refer to selecting a form or worksheet from the Forms Tree. Since individual Districts/Sites may set up their Forms Tree differently, the reference to the form being in the tree may be erroneous. In that case, click on the “Forms List” on the Toolbar and select the form that you wish to be in the tree.

PREPARER'S USE WORKSHEET

This section is based on information provided during the pre-season before the final release of TWO TY2011. Therefore, this information is subject to change with the final release.

The Preparer's Use Fields that use to be at the bottom of the Main Information Form have been moved to a separate worksheet, the Preparer's Use Worksheet.

Select the Preparer's Use Worksheet from the tree

This worksheet provides several alpha-numeric fields, all 15 characters wide that can be used by local sites as they wish. However,

- Fields 11 and 12 are for entry of the answer to the questions regarding, a. the languages spoken in the home and, b. whether or not there is a handicapped person in the home. This information can be determined from the Intake Sheet.
- Field 13 is reserved for the Counselor's initials
- Field 14 is reserved for the Quality Reviewer's initials – this field is required for Activity Report Tracking.
- Field 15 should contain the SIDN.

At the bottom of the worksheet there is a three-line field where free-form text, which carries forward with "proforma", can be entered.

- Check to see if there are comments from the prior year's return to indicate "problems" and/or an amendment.
- Remove any notes from prior year if they no longer apply.
- Use this field to record any pertinent information regarding the current year's return.
- Use this field if you have any doubts what the first, middle initial and last name are for anyone listed on the return. Document them as they are listed on the social security card. This way the ERO can use this information if the return rejects due to name/SSN/birth date mismatch without having to call the taxpayer.
- If the return is not completed, show information or actions necessary to complete the return.
- Enter any references/notes for Next Year's preparer. (Deaths, Births)

INCOME

LINE 7 - WAGES, SALARIES, AND TIPS

Select W-2 from Tree. While forms can be accessed by linking from the appropriate line on the 1040, this is not recommended.

W-2- Top Section

- Checking Taxpayer or Spouse at the top of the form is only required for MFJ, which is out-of-scope for Tax-Aide for Community Property states
- The “Check if W-2 is handwritten, altered, or appears not to be a true W-2” should ONLY be used if the W-2 is truly suspect
- Check the appropriate box for address information – if the taxpayer’s current address is not the address shown on the paper W-2, the “Check and make changes” box allows you to overwrite and change the address field to agree with the address shown on the W-2; if no address is shown on the W-2, leave the default address here
- Skip the second line in this section, which is only used for a foreign address
- After you complete the W-2 data entry (skipping boxes 3 to 6), check to see if the amounts in Boxes 3, 4, 5 and 6 agree with the paper W-2. If they are different: Check the box labeled “Check to take calculations off lines 3, 4, 5, and 6” at the upper left and enter correct data in those boxes.
- Do NOT enter anything in the “control number”
- Check the “Corrected W-2 (W-2-C)” box if it is a corrected W-2

W-2- Employer’s ID, Name and Address

- The employers’ (tax) identification number (EIN)
 - If the EIN is missing, the tax return cannot be e-filed. Do not create a bogus number or enter a social security number as the return will be rejected. The taxpayer must contact the employer to get a valid EIN number
 - If the computer has encountered this EIN on another return during the current season, the name and address information will be filled in by TaxWise. Make any changes necessary so that the information in TaxWise matches the paper copy provided by the taxpayer except for the removal of non-allowed punctuation which included &’s and Slashes for 2010.
 - “Roseville” W-2’s issued by California In Home Care will show the name of the person being cared for (often a relative) as the employer and a CA tax ID assigned to that person.
- TaxWise will calculate the Name code field
- Verify that the Employer’s name and ID match the W-2 exactly, as the e-file will reject if these do not match IRS records.

Employee SSN when filing under ITIN

If the employee is filing using an ITIN the paper W-2 will have a SSN that is not his. There will be a check box at the top of the W-2 that will be automatically checked if an ITIN is used. There will be a new field that requires the SSN shown on the paper W-2. No changes are required to “line d” on the W-2. (Prior to 2011-The SSN on the TaxWise input form W-2 “line d” will show the ITIN and must be overridden using F8 to enter the SSN which appears on the paper W-2. Your site coordinator may have to edit this return to accomplish the override).

Employee SSN

Enter the SSN that is on the W-2 - it may be different than the SSN on the Main Information Page. If an ITIN was entered on the Main Info Form the SSN field will be “red” and require entry of the SSN from the W-2. This is a change from TaxWise versions prior to Tax Year 2011 where the SSN field was populated automatically.

Employee SSN incorrect

If the taxpayer has an SSN and the SSN is incorrect on the W-2 document, the employee must request a corrected W-2. If a corrected W-2 is not yet available, do not change the correct SSN on the TaxWise W-2 input form to match the incorrect SSN paper W-2.

W-2- Dollar Value Boxes

- The entries in this section must be **an exact match** (rounded) of the paper W-2.
- If the amounts in Boxes 1, 3 and 5 on the W-2 are not all the same:
 - Enter the amounts on Line 7 and 12. TaxWise calculates the correct amounts for lines 3, 4, 5 and 6. If the entries still do not agree with the W-2 follow the next step
 - For 2008 and prior years, TaxWise will not calculate the correct amounts. Check the box labeled “Check to take calculations off lines 3, 4, 5, and 6” at the upper left and Type the correct amounts from the W-2 in boxes 1, 2, 3, 4, 5, and 6
- If the amounts are the same, TaxWise automatically calculates Social Security and Medicare wages, and the amounts withheld. You only enter the amounts in boxes 1 and 2.
- **Box 7:** Social Security Tips are reported here. TaxWise will automatically adjust boxes 3, 4, 5, and 6.
- **Boxes 9 and 10:** Advance EIC payments and Dependent Care Benefits are reported here. These are rare, but it is VERY important that they are entered accurately as they directly affect other benefit calculations
- **Box 12:** the more commonly encountered codes are listed below (go to the TWO Home page and click on “IRS Forms and Publications,” and do a search to find the W-2 and other codes):

A, B, M, N	Uncollected amounts, including Social Security or Medicare taxes, which TaxWise will correctly transfer to 1040, line 63.
C	Taxable cost for group term life insurance. Quite common, does not change anything
D, E, F, G, H, S	Elective deferrals, which can make the return eligible for the Savers Credit, which is subject to income limits (also see Y below)
J	Non-taxable Sick Pay
K	20% Excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements. Not taxable; however if form 2106 is filed, the amount would go on line 7
P	Excludable moving expenses. If taxpayer(s) deductible moving expenses are not greater than this amount, form 3903 does not need to be filed
Q	Non-taxable combat pay. Optionally used to calculate Earned Income Tax Credit, however generally out-of-scope for Tax-Aide. TaxWise will pick the correct option
R	Employer contributions to an Archer Medical Savings Account (MSA)
T	Adoption benefits
V	Income from the exercise of nonstatutory stock options
W	Employer contributions to an employee’s Health Savings Account (HSA) will put 8889 on tree
Y	An elective deferral that is NOT eligible for Savers Credit
Z	Income under section 409A on a nonqualified deferred compensation plan
AA	Designated Roth contributions under a section 401(k)plan
BB	Designated Roth contributions under a section 403(b) plan

- **Box 13:** Check the Retirement Plan or Third Party Sick Pay to agree with the W-2. The retirement plan box determines IRA eligibility rules. Statutory employee is out-of -scope
- **Box 14:** Enter the code(s) and dollar amount(s) shown on the W-2:
 - These entries will not affect the tax return. However if there is an entry for a retirement contribution in this box (e.g. RET TS), this might be an elective contribution. You need to ask if this is the case. If so, then you need to check the box that generates Form 8880, and fill out accordingly.
 - EXCEPTION for the following situations:
 - If the code is CASDI, SDI, UI, UD, VP, VI or VPDI: Do not enter in boxes 19 and 20. enter only in the “California W-2 only” space at the bottom.

W-2- State Section

- Box 15 Enter the State ID number without dashes or spaces (TaxWise truncates the Carry-forward for the following year after 9 numbers). The State ID number is NOT the same as the Federal ID number. If the State ID is blank on the W-2, enter nine nines or NA in TaxWise. The State ID is not required if there is no State Tax withheld.
- Box 16: State wages rarely may be different than federal, in which case check the “take calculations off line 16, state wages” box at the top of the TaxWise W-2 screen and enter the correct amount in Box 16.
- Box 19 (local tax): the only amounts that should be entered are CASDI, SDI, UI or UD. Do not enter any Voluntary amounts (VPDI, VP, and VI)
- Box 20: the default is CASDI. (Do not change if another literal applies, such as SDI, UI, UD, DI)
- INSTRUCTIONS FOR W-2 – CALIFORNIA W-2s ONLY (at bottom of form): Enter the Descriptions of the Disability premium and the amount so that TaxWise can calculate the amount to be carried forward to Schedule A as a tax and claim a refund for any excess State disability insurance payments on the CA return. VPDI is included in determining excess SDI contributions, but is never carried to Schedule A as it is not considered a tax. Amount subject to SDI for 2011 is \$93,316 and \$1,119.79 withholding. In the rare instance when a W-2 shows multiple SDI codes and amounts, enter the sum of the amounts.

Sick Pay

If a W-2 reports Non taxable Sick Pay in Box 12 with a code J and no other entries, it is not necessary to enter the W-2 in TaxWise

Substitute W-2

If the client has not received a W-2 by February 15th and has attempted to get a copy from their company and failed, a substitute W-2 can be used. You will need a pay stub for the last pay period worked that shows cumulative pay and withholding. Proceed as follows:

- Open a W-2 and place the cursor in the Employer’s name field. Link to “New 4852 Substitute W-2 or 1099-R”. Complete the form. If a substitute W-2 form is completed, you must file a Paper return. A Form 4852 prints with the return. This must be signed, and attached like any other W-2.

Scholarships, Fellowships & Grants

- A scholarship, fellowship or grant will be reported on either a W-2 or form 1098T. This is reported on the return of the person receiving the scholarship. If the recipient is a dependent, it is not reported on a parents return.
- The amount is reported on 1040, line 7. If a W-2 was received (usually pay as a TA), the whole amount is taxable and cannot be reduced by expenses. If a 1098-T was received, use the scholarship entry less tuition, fees, books and equipment if the scholarship is awarded specifically to cover these expenses and enter on 1040 Wkt1 Line 1. (The 1098-T shows only the tuition and fees so the amount spent for books and equipment must be determined from separate records.)
- You cannot claim an education credit for any expense paid for with scholarship funds provided for that specific expense. .
- You must use Worksheet 1-1 in Pub 970 to determine the taxable portion, which requires that you ask questions about how the money was used. Pub 4012 also shows taxable/non-taxable items.

Indian Tribal Income

Tribe members generally share in the profits of any gaming operation run by the tribe. This may be reported on a W-2 (1040 line 7) or 1099-MISC (1040 line 21). It is always taxable for federal, and is exempt from CA taxes only when the recipient is living and working on the reservation.

Tip Income

- TaxWise adds tip income entered on the W-2 screen to Line 7 of the 1040
- If unreported tip income is received, open Form 4137 with Find a Form and enter unreported tip income on Line 4 (allocated tips are transferred here from the W-2). If there are other unreported tips, or if a server tips out a busboy use F8 or CTRL-Enter to override on line 4 to adjust – a counselor with a SuperUser or Reviewer role may need to do this. These unreported tips are added to 1040 Line 7 Wages. Amounts included in line 4 that are less than \$20 in a month are not subject to Medicare tax and are entered on line 5.
- Form 4137 is automatically populated with the Business Establishments name if there are Allocated tips. However, if there are no Allocated tips, either enter \$1 in allocated tips on the W-2 or Override (F8 or CTRL-Enter) this field – a counselor with a SuperUser or Reviewer role may need to do this.

Household Employee income

A household employee who did not receive a W-2 because the employer paid less than \$1700 for the entire year reports the income on Form 1040 Wkt1. This is transferred to 1040 line 7 and “HSH” and the amount of Household employee income is shown.

LINE 8 - TAXABLE INTEREST

Seller-Financed Mortgages (Sch B, line 1a)

Select Sch B from the Tree

If the taxpayer (seller) is using an Installment Sale plan to write off Capital Gains on this sale over a period of time, the return is *out-of-scope*.

- If the income is solely from interest, fill in the required information about the payer.
- If the seller has interest income from MORE THAN one source, ALL items must be entered on a supporting worksheet; click the arrowhead on the right-hand side of the field and select “NEW Seller List – Schedule B Seller Financed Mortgages” and complete the required information for each payer

Interest (interest statement)

Select Interest Stmt from the Tree. Tab to first field or the amount field if payer is already shown.

RULE: All interest entries MUST be made using the Interest Statement, NOT directly on Schedule B.

- **Do not leave a blank line(s) between entries.** To add or delete a line, press CTRL-I to insert a row or CTRL-R to delete a row
- **Only ONE Interest Statement is allowed per return.** Always return to the same one when adding additional entries
- If there are entries in Boxes 1 and 3, the amount in box 3 (for US Government Bond Interest) of a 1099-INT is NOT included in box 1. Enter the information on a separate line on the interest statement when there is an amount in box 3.
- Tax-Exempt interest on state or local bonds, or mutual funds holding these bonds, must be included on the interest statement in the NAEOB (detailed description in Pub 4012) amount column. If an account has regular and tax-exempt interest, it is easier to enter the tax exempt interest on a separate line with no entry in the first column “Box 1 or 3”.
- If either the NAEOB or State Adj amount field is red and there should not be an entry, remove the entry in the field before the red “amount” field (“E” or “+/-“)
- Completing the Statement:
 - Payer – Payer name, may be abbreviated
 - Box 1 or 3 Amount – Amount entered will be reflected on both the Federal and the CA returns
 - For Federal Tax Exempt interest, do not enter an amount in the first (Box 1 or 3) Column.
 - “TSJ” – leave blank, it does not apply as CA is a community property state

- Complete the NAEOB information before entering any State Adjustment. Generally you will ONLY use E=Tax Exempt from BOTH federal and state taxes:
 - Enter the letter to define entry
 - Enter the Exempt Amount

Complete the interest statement as if there is only a federal return. Then ask the question “is the interest treated differently by CA” to determine what State Adjustment should be made.

- State Adjustment entries are used for differences between federal and state tax codes (e.g. where the amount is not taxable for federal but is taxable for state or vice versa – see examples C, E and F below); enter “+” or “-” to indicate whether the amount is or is not subject to state tax and the amount
- If there are entries for AMT PAB (Alternative Minimum Tax-Private Activity Bonds) enter them and then make sure that Alternative Minimum Tax line 45 is not shown on 1040 page 2, which would make the return *out-of-scope*
- Early Penalty – any early withdrawal penalty as shown on the 1099-INT. This is transferred to 1040 Line 30.
- Federal Withholding - enter any Federal withholding shown on form 1099-INT

Examples of Interest Income

	Payer	Box 1 or 3 Amount	TSJ	State Adjust		NAE OB	NAEOB Amount	AMT PAB	Early penalty	Federal withheld
				+/-	Amount					
A	FIRST INTERSTATE BANK	2000			0		0		0	0
B	BANK OF AMERICA	100			0		0		40	0
C	US GOVERNMENT BONDS	666		-	666		0		0	0
D	CA STATE BOND	0			0	E	111		0	0
E	OTHER STATE BOND	0		+	333	E	333		0	0
F	PART STATE TAX FREE BOND	0		+	30	E	70		0	0

Example A: \$2000 ordinary interest from First Interstate Bank, reported on form 1099-INT, box 1 or consolidated brokerage statement

- Taxable on both the Federal and CA returns
- Enter “2000” in the “Box 1 or 3 Amount” column

Example B: \$100 interest from Bank of America Box 1 with early withdrawal penalty (\$40) Box 2, reported on form 1099-INT or consolidated brokerage statement

- Taxable on both the Federal and CA returns
- Enter “100” in the “Box 1 or 3 Amount” column and “40” in the “Early Penalty” column.

Example C: \$666 interest from a bond issued by the United States Government; which includes savings bonds, reported on a 1099-INT Box 3, a statement from the US Bureau of Debt, or consolidated brokerage statement

- Enter “666” in the “Box 1 or 3 Amount” column.
- Taxable on the Federal return, exempt on the CA return
- Enter “-” in the “+/-” column and “666” in the “State Adjustment Amount” column.

Example D: \$111 interest from a CA municipal bond, reported on a statement issued by the state or a consolidated brokerage statement.

- Do not enter anything in the Box 1 or 3 Amount columns.

- Enter an “E” in the column headed “NAEOB” and “111” in NAEOB column.
- Not taxable on either the Federal or CA returns – no state Adjustment required.

Example E: \$333 interest from a state OTHER THAN CA municipal bond, reported on a statement issued by that state or a consolidated brokerage statement

- Do not enter anything in the Box 1 or 3 Amount columns.
- Enter an “E” in the column headed “NAEOB” and “333” in NAEOB column
- Not taxable on the Federal Return, taxable on the CA return
- Enter “+” in the “+/-” column and “333” in “State Adjustment Amount” column

Example F: \$70 interest from a Tax Free Municipal bond fund, reported on a consolidated brokerage statement. Taxpayer provided brokerage papers show that 57% is from CA municipal bonds ($\$70 \times 0.57 = \40). That portion of interest coming from federal and/or CA investments is exempt from CA tax.

- Do not enter anything in the Box 1 or 3 Amount columns.
- Enter an “E” in the column headed “NAEOB” and “70” in NAEOB column
- Not taxable on the Federal Return, partially taxable on the CA return
- Enter “+” in the “+/-” column and “30” in “State Adjustment Amount” column

Generally the fund will indicate how much is exempt from state tax on a separate statement – the general rule is:

- If less than 50% comes from federal and/or CA, ALL is taxed by CA.
- If 50% or more comes from federal or CA, only that specific portion of the amount is exempt from CA tax; you must manually calculate the amount based on information from the mutual fund/broker provided by the taxpayer.

OID Interest

Treat OID interest as regular interest; OID adjustments are out-of-scope UNLESS the taxpayer provides the information needed for an OID adjustment, in which case:

- Enter the total interest received in the “Box 1 or 3 amount” column
- Enter the letter “O” (not a zero) in the “NAEOB” column
- Enter the non-taxable amount provided by the taxpayer in the “N AEOB Amount” column

Simple K-1s and Prepaid Funeral Plans

Pre-Paid Funeral/Burial plans report income earned on the prepaid funds on either a K-1 or substitute (letter format) document. Income reported on a K-1 is from limited partnerships, trusts and estates. These are *out-of-scope* for Tax-Aide; however an exception is made if income consists only of interest, dividends and capital gains. Because of TaxWise peculiarities, it is strongly recommended that no entries should be made on the TaxWise K-1 form. Entries into TaxWise shall be done as follows. Show Payer as “From K-1 (*name of payer*)”:

(Note: Line numbers vary by form (1041 K-1, 1065 K-1 or 1120S K-1) – go by line description.)

E/T KI LINE	P/S K-1	Or, This Entry on Letter K-1	Enter on Form	In This Place
1	5 or 4	Interest	Interest Stmt	Amount
2a	6a or 5a	Total Ordinary Dividends	Dividend Stmt	Total Dividends
2b	6b or 5b	Qualified Dividends	Div. Worksheet	Qualified Dividends
3	8 or 7	Short-term Capital Gain distributions	Schedule D Pg 1	Sch D Line 5
4a	9 or 8	Long-term Capital Gain distributions	Schedule D Pg 1	Sch D Line 12
4c	9c or 8c	Unrecaptured 1250 Gain	Div. Worksheet	1250 Gain
5 to 13t	Any amounts on these lines make the K-1 "Out-of-scope"			
	<i>Add Additional Line on Int. Worksheet for</i>			
14a	18a or 16a	Tax Exempt Interest	Int. Worksheet	"E" in NAEOB, Amount in NAEOB Amt.
		Amount in 14a taxable in state	Int. Worksheet	"+" and Amt. in State Adjustment (same line).
14c to g	"Out-of-scope"			

LINE 9 - DIVIDENDS

Select Dividend Stmt from the Tree. Tab to first field or amount column if payer is already shown.

RULE: All dividend entries MUST be made on the Dividend Statement, NOT directly on Schedule B.

- This information may come from a 1099-DIV or a consolidated brokerage statement.
- **Do not leave a blank line(s) between entries.** To add or delete a line, press CTRL-I to insert a row or CTRL-R to delete a row
- **Only ONE Dividend Statement is allowed per return.** Always return to the same one when adding additional transactions

Completing the Dividend Statement:

- Payer – Payer name, abbreviated if necessary. Enter name of brokerage or processor issuing the 1099, not the individual stock or fund names. The company that issues the stock will be the processor if the stock certificate is held by the client.
- Ordinary dividends – enter the dividends shown on the 1099-DIV. Entries will flow to the state return.
- Qualified dividends – Enter the dividends shown on the 1099-DIV. Note that this amount is a subset of Ordinary dividends and therefore can never be greater – however TaxWise does not check for this situation and therefore does not prevent you from making an error.
- "TSJ" – CA does not require this field, leave it blank
- State Adjustment - used for differences between federal and state tax codes; enter "+" or "-" in the state column as applicable, which causes the amount in the next column to be adjusted on the CA return
- N - Nominee. Not commonly used by Tax-Aide
- Capital Gain – Enter Capital Gains distributions shown on the 1099-DIV.
- 1250 Gain – If applicable, it will be shown on the 1099-DIV or brokerage statement. The 1250 Gain cannot exceed the Capital Gain amount; however TaxWise does not check for this situation and therefore will not prevent you from making an error.

- 28% Gain - If applicable, it will be shown on the 1099-DIV or brokerage statement. The 28% Gain cannot exceed the Capital Gain amount; however TaxWise does not check for this situation and therefore will not prevent you from making an error.
- Federal Withholding - enter any Federal withholding shown on form 1099-DIV
- Exempt interest dividend – if entering amounts here, do not include the amount in the Ordinary Dividend column. This amount will appear on 1040 line 8b as “Tax Exempt Interest”.
- AMT-PAB- If there are entries for AMT PAB (Alternative Minimum Tax-Private Activity Bonds) enter and then make sure that Alternative Minimum Tax is not shown on 1040 page 2, line 45, which would make the return *out-of-scope*.
- **Non-Dividend Distributions** in box 3. These are not taxable and should NOT be entered in TaxWise. They reduce the basis of the stock.
- **Liquidation Dividends** in box 8 are a sale that is reported on Schedule D, basis to be furnished by Taxpayer.

Examples of Dividend Income

	Payer	Ordinary dividends	Qualified dividends	TSJ	State Adjust			Capital gain	1250 gain	28% gain	Federal with.	Exempt int. div.	AMT PAB
					+/-	\$	N						
1	GENERAL MOTORS	1200	1200			0		0	0	0	0	0	
2	MERRILL LYNCH	800	150			0		200	0	50	0		
3	GOVT SECURED FUND	1500	0		-	800		0	0	0	0	0	

Example 1-- Ordinary and Qualified Dividends

- General Motors Corporation common stock with ordinary dividends of \$1,200, all of which are qualified
- Dividends are taxable on both the Federal and CA returns

Example 2 – Merrill Lynch held Stock and Mutual funds

- Total of investments held at Merrill-Lynch paid \$800 ordinary dividends, of which \$150 were qualified dividends and \$200 in capital gains, of which \$50 is a 28% gain.
- The entire amount of the capital gains distributions is shown in the “Capital gain” column

Example 3 – State exempt interest dividends from direct Federal Government obligations

- Assume that the Government Secured Fund includes investments in both state (including CA) and federal government & agency bonds. That portion of interest coming from federal and/or CA investments is exempt from CA tax. Generally the fund will indicate how much is exempt from state tax – the general rule is:
 - If less than 50% comes from federal and/or CA, ALL is taxed by CA
 - If 50% or more comes from federal or CA, only that specific portion of the amount is exempt from CA tax; you must manually calculate the amount based on information from the mutual fund/broker provided by the taxpayer.
- In this example, total dividends of \$1,500 were received, of which 53.3% (or \$800) came from federal and/or CA investments. As this is more than 50%, this portion is exempt from CA tax.

Foreign Taxes Paid

- These may appear on a 1099-DIV or on a brokerage statement.
- This is entered on Form 1116 at the top of the form.
- In 2009, direct entry on 1040 pg 2 did not carry to the e-file- USE FORM 1116
- The return is *out-of-scope* if the total amount EXCEEDS \$300 (\$600 for a joint return).

LINE 10 - TAXABLE STATE INCOME TAX REFUND

- California uses a post card sized document to report prior year state income tax refunds. The amount reported is the Actual California refund minus the Child Care Credit amount.
- Check the “YES” box above Line 10 **ONLY if the taxpayer(s) itemized deductions and deducted State Income tax (not sales tax) for the year of the refund.**
- You **MUST** have the prior year’s tax return to accurately complete the worksheet. Use the State Tax Refund Worksheet to enter this information. The amount will transfer to the 1040.
- Line 2 General Sales tax must be calculated if not shown on the return. Use the Sales Tax Table at the back of this manual or go online to the IRS website and search for the Sales Tax Deduction Calculator tool. If using the table, to get the total Sales tax including local tax multiply the number from the table by your 2011 tax rate divided by 8.0034. .
- Enter the Filing Status, Number of taxpayers over 65 in prior year. TaxWise will calculate the Standard deduction on line 9
- If the prior year’s return is NOT available (select SUMMARY form from tree to see prior year if this is a return with carry forward data) and it is likely that there were itemized deductions, enter the entire refund amount directly on the 1040 line for “Taxable Refunds, Credits, Offsets to State and Local Income Taxes.” If this line has been linked to the State Refund Worksheet, see “Field is yellow resulting from linking in error” under Confusing Situations in TaxWise Online.

LINE 11 - ALIMONY RECEIVED

- Alimony received is entered directly on Form 1040 page 1
- Child/Family support received is NOT taxable. See Pub 4012 for eight tests to determine if payments are alimony

LINE 12 - BUSINESS INCOME

Select “Sch C” from the Tree

AARP parameters specify that Tax-Aide will NOT do business returns. We can complete Schedule C using C-EZ limitations except for expenses up to \$10,000 to report non-employee compensation (Self – Employment). Schedule C-EZ limits include: there is not a loss, and no depreciation is claimed (no computer), however more than one Business income per taxpayer is allowed. There is no income limit. This carries to the California return as part of Federal AGI. If a C-EZ carries forward, transfer the information to the C and delete the EZ.

Completion of Schedule C

- Check at the top to indicate whether the form is for the taxpayer or spouse
- Complete the requested information for boxes A through H
 - Boxes C and D will usually be blank, they are NEVER taken from the 1099 payer information
 - Box E is usually the taxpayer’s home address
 - Box F is “Cash” or return is out-of-scope
 - Box G is “Yes” or return is out-of-scope
- Business Code (look up in the 1040 instruction booklet or do the following):
 - Click the “Home” icon
 - On the Home page, click the “Business 1099R and Business Codes” link
 - Find the most applicable code and “Copy” it
 - Close the link
 - Paste the code into the applicable field on the Schedule C
 - If you cannot find an appropriate code use “999999”
- For gross receipts reported on a 1099-MISC:
 - Select 1099-MISC under C on the Tree and complete the form

- If client has more than one 1099-MISC, click the “+” next to the form in the Forms Tree to open another 1099-MISC
- If they have income without a document, click the arrowhead on the right-hand side of the Gross receipts field and link to a Scratch pad. Do not enter on Line 6 Other Income.
- If the client has gross receipts which are NOT reported on form 1099-MISC:
 - Link by clicking the arrowhead on the right-hand side of Line 1 of the Schedule C, and choose Scratch Pad.
 - Enter the additional gross receipts items on the Scratch Pad
- Part I Income line 2, 4, and 6 must be zero, or the return is out-of-scope
- Part II Expenses must be listed by category on the individual lines provided. Optionally, all expenses can be listed in Part V
- Part III Cost of Goods Sold is out –of-scope
- Part IV Information on your vehicle is entered in this section and it carries to Line 9 under Part II.
- Part V Other Expenses is used for Telephone, Internet and other expenses that are not listed on Part II and carries to line 27 of Part II
- When you run diagnostics, you will get a message “Number of California Schedule C’s must equal the number of Federal Schedule C’s”
- There is a “red” CA Schedule C on the tree. You have to open it up and check the box at the top of the form.

Notary Fees

Notary Fees and expenses are reported on Schedule C in the normal manner. However, as this is exempt from self-employment tax, the following additional steps are necessary:

- Complete C
- Open “Schedule SE” and enter the Exempt Notary amount on Line 3
- Check the Exempt Notary box on 1040 Page 2, line 56 - Self Employment Tax

LINE 13 - CAPITAL GAIN OR LOSS

Select “Cap Gn Wkt” under the Main Info form in the tree

RULE: All capital gain entries MUST be made on the “Capital Gn Wkt” NOT directly on Form 8949 or Schedule D except for Capital gains reported on K-1’s

Capital Gains and Losses

- Proceeds from sales of securities may be reported on a 1099-B or on a consolidated brokerage statement together with dividends and interest. Basis may be found on the 1099B, a Gain/Loss statement from the broker, or the original purchase confirmation.
- The “Capital Gains Worksheet” permits entry of transactions in random order; TaxWise will separate Short-term and Long-term transactions.
- **Do not leave blank lines between entries**, to add or delete a line, press CTRL-I to insert a row and CTRL-R to delete a row.
- Only ONE “Cap Gn Wkt” is allowed per return.
- A tax return for a dependent child with more than \$1900 of investment income is *out-of-scope*.

Completing the worksheet:

- Description of Property – the number of shares and the name of the security, abbreviated as required (stock exchange symbols are permitted, if known). Number of shares – enter only whole shares. Use 1 or FS if the transaction is a fractional share (less than one full share).
- Enter Code A, B, or C to indicate source of Basis
- Date Acquired
 - If the taxpayer has made several purchases of the same security or mutual fund over time and at least one year prior to sale date., VARIOUS can be entered, OR

- If the taxpayer inherited the security, INHERIT can be entered. The Basis is the FMV at death of original owner.
- When “INHERIT” or “VARIOUS” is entered as date acquired, TaxWise treats it as a long-term gain/loss.
- If the taxpayer has made several purchases or reinvestments during the year prior to sale, enter “VARIOUS.” However, since TaxWise defaults VARIOUS to a long-term gain, you must change the long-term designation to short-term. Do that by clicking in the “S/L” field, overriding the entry, deleting “L” and entering “S.” Since most preparers can’t override, an alternative is to enter one short-term date as the date for all the short-term purchases.
- Date Sold
 - Enter Date from 1099B
 - Worthless securities (including securities the taxpayer abandons) are treated as though they were sold on the last day of the tax year. Enter a 12/31 sold date. This includes Stocks, bonds or other securities that become completely worthless during the year and securities that are abandoned. Do not use “WORTHLESS” as this automatically makes the transaction Short Term, which may be incorrect. If securities become worthless through a corporate bankruptcy, do not use “BANKRUPT”
 - Non-Business Debts that become worthless during the year are treated as short term capital losses. Enter “WORTHLESS” in date sold column. You can use “BANKRUPT” for some non-business bad debts. This would apply to a deposit lost to a contractor or financial institution that went bankrupt. Do not use for Stocks/Mutual Funds.

TaxWise will write the “dates” as VA/RI/OUS, IN/HE/RIT, BA/NK/RUPT or WO/RT/HLSS, do NOT attempt to remove the slash (“/”) marks.

- Sales Price enter the Sales Price from the 1099B or broker statement
- Cost basis – required. If Basis is not shown on the 1099B, a Gain/Loss statement or original purchase confirmation is not available, advise the taxpayer(s) to contact the broker to get the cost basis. If all else fails, enter zero as the cost basis and advise the taxpayer(s) what you are doing (F3 or CTRL-Spacebar to remove the red on Page 1 of Schedule D).
If a non-qualified stock option is exercised and sold on the same day, the clients W-2 will show a code V and the amount included in their line 1 income for stock purchase at option exercise. The basis of the stock for Schedule D is the selling price plus commissions.
- If federal tax has been withheld on the 1099-B or broker’s statement, you MUST:
 - Go to 1040 Page 2 line 61 “Federal income tax withheld”
 - Link to a Scratch pad.
 - Enter the Broker name and 1099B in the description field
 - Enter the amount withheld.
 - TaxWise automatically completes page 2 of Schedule D using information from other forms and schedules.

If there is a capital loss carryover, make sure that the Sch D Wkt 2 is printed for reference by next year’s preparer, however “proforma” does bring this information forward

Capital Loss carryover from prior years (Schedule D)

Select Sch D Pg 1

- You need the prior year’s return or a copy of the appropriate worksheet to correctly report any carry-forward, unless you are using “proforma”
- Capital loss carryover are separated between long-term and short-term
- Enter the amounts from the prior year Capital Loss Carryover Schedule D WKT2 on the appropriate lines of Schedule D Part I (short term) and/or Part II (long term).

- TaxWise will create a new carryover worksheet for any balance over the maximum allowable loss of \$3000, and brings forward the correct carry-forward amount to page 2 of Schedule D.
- For clients with income near or close to the standard deduction, the return will show a \$3000 capital loss, but the carry-forward will not be reduced by the \$3000.
- Capital Loss carryover amounts can vary between Federal and State due to different depreciation rules, therefore **you must manually enter the combined capital loss carry-forward on the CA return** even if “proforma” is used:
 - Open CA D form and enter the TOTAL of the federal short and long term carry-forward amounts on line 6 as a **negative amount**
 - Verify that TW form CA CA shows no subtractions/additions on the Capital Gain or Loss line

Sale of Main Home

Do NOT enter this information if (1) the taxpayer has not received a 1099-S AND (2) the gain is less than the exclusion (i.e. there is no reportable gain).

- While the lower portion of Sch D, Wkt2 is a Sale of Home worksheet, this is not required and does not carry to “Schedule D Cap Gain or loss transaction Worksheet”.
- Determination of the Basis of the home is complicated and may require a complete review of the transactions regarding home purchase and sales since the acquisition of the first home. Calculation of this Basis is out-of-scope.
- If the taxpayer received a 1099-S, it should be included on Schedule D even if the sales price minus basis is less than the allowed exclusion. The Title Company should issue a 1099-S only when the seller has indicated that the gain is more than the exclusion.
- If a loss is incurred, the cost basis must be reduced to be the same as the selling price, since a loss from the sale of a personal residence is not allowed.
- When both a gain and exclusion are claimed, you need two entries on the Cap Gain Wkt
 - On the first line:
 - enter “MAIN HOME” in the description column
 - dates acquired and date sold
 - enter the full sales price and the full acquisition cost (including improvements and less commission on the sale)
 - On the second line:
 - enter “EXCLUSION” in the description column
 - use the same dates of sale and acquisition as on the first line
 - Enter zero as the selling price (F3 or CTRL-Spacebar to remove the red on Page 1 of Schedule D) and enter the exclusion claimed in the “cost basis” column.
 - if the gain is equal to or less than the exclusion amount, enter the smaller number as the exclusion
- If the Taxpayer had California tax withheld from the sale they will receive CA593. Enter this amount on CA 540 Line 38, “Real Estate withholding”.
- If home was originally purchased in 2008 or later, complete Form 5405 Part III

Sale of Home in Foreclosure or Abandonment

Gain or Loss is reported in the manner stated above; however there may be Cancellation of Debt that may be out-of-scope.

With a 1099A with Box 5 marked No, the Sales Price is the Box 2 Amount “Balance of Debt Outstanding”.

With a 1099A with Box 5 marked Yes, the Sales Price is the lesser of Box 2 “Balance of Debt Outstanding” or the “Fair Market Value” Box 4

If the Foreclosure occurs in the same year as the cancellation of Debt, the lender has the option to issue only a 1099C where the Balance of Debt Outstanding is the Amount of Debt Canceled Box 2 and the Fair Market Value is shown in Box 7

LINE 14 - OTHER GAINS OR LOSSES - (*out-of-scope*)

LINE 15/16 - PENSIONS AND ANNUITY INCOME & IRA DISTRIBUTIONS

Select form 1099-R from the Tree.

Form 1099-R is the usual source document for these payments; however The Railroad Retirement Board and U.S. Government Office of Personnel Management (“OPM”) use different forms. Refer to the following subsections for information about these forms and how to enter the data in TaxWise.

1099-R-Top Portion (Address)

- Specify either Taxpayer or Spouse at the top of the form
- The “Check if 1099R is handwritten, altered, or appears not to be a true 1099R should ONLY be used if the 1099R is truly suspect
- Check the Corrected box if it is a corrected 1099R

1099-R Payers’ Name and Address

- Payers ID - Enter the EIN. If the computer has encountered that EIN on another return, the name and address information will be filled in by TaxWise. Compare to the paper 1099-R to be sure that the Name and address is entered correctly, with the exception of unallowed punctuation.
- TaxWise will enter the Name Code field.
- If the address includes an in care of line, use the Payers Care of name line to enter the name preceded by “%” and space. It can also be used if the payers address requires 2 lines.
- Verify that the payer’s name and ID match the 1099-R exactly as the e-file will reject if these do not match IRS records.

1099-R-DOLLAR VALUE BOXES

The entries in this section must be an exact match of the paper 1099-R.

- Box 2: This box on the paper 1099-R may be blank. Do not make an entry in box 2. The entire box 1 will be taxable unless an amount is calculated/entered in the Exclusion Worksheet or Simplified Method sections on the lower section of this screen.
- Box 3: Capital Gain will be shown for a Charitable Gift Annuity (Code F). The difference between the Distribution shown in box 1 and the capital gain shown in box 3 will appear on Line 15 of the 1040. A schedule D must be completed to report the Capital gain. Describe as “FROM 1099-R”. The Gain should be the amount from Box 3 and the gain is Long Term
- Box 5: If the payer has calculated the taxable amount of the pension in box 2, generally the difference between boxes 1 and 2 will appear in box 5.
If Box 5 is the amount of health insurance premiums, you must MANUALLY carry the amount to the Schedule A Detail if the taxpayer is itemizing deductions

- **Box 7: Take care to enter the code shown on the 1099-R. If multiple codes are shown (e.g. 4G), it may be necessary to enter only the action code “G” and not show the source code “4”.** The more commonly encountered codes are listed below; go to the Home page and click the “Business 1099R and Country Codes” link to view a listing of all codes. If the code is not listed, it is considered *out-of-scope* for Tax-Aide. Box 7 code can be changed to remove the penalty using Form 5329 if appropriate.

1	Early distribution, no known exception. 10% federal penalty and 2.5% CA penalty applies unless exceptions which would go to the IRS on form 5329 and CA 3805P.
2, 3, 4	Early distribution, disability or death. Generally no penalties apply
7	Normal distribution – the most commonly encountered code, no penalties
F	Charitable Gift annuity
G	Direct rollover. Not taxable, no penalties apply. Not necessary to complete rollover worksheet portion of the TaxWise 1099-R
J	Early distribution from a Roth IRA, no known exception. Penalties may apply. Requires Form 8606 which is out-of-scope
P	Excess contributions plus earnings/excess deferrals taxable in prior year. This generally requires an amendment of the taxpayer(s) prior year return
Q	Qualified distribution from a Roth IRA. Comparable to 7. No tax or penalty involved
T	Early Roth IRA distribution, exception applies. Generally no penalty, no tax- 8606 required

- “Check if disability and taxpayer is disabled” - entry below Box 7 on the TaxWise screen **MUST** be checked if the pension or annuity is being paid as the **result of disability and the client is under normal retirement age for that company**. The pension amount will show up on 1040 line 7 if under normal retirement age and the box is checked.
- “Check to Force Form 5329” –If there is an early distribution penalty because the taxpayer is less than 59-1/2 years old, the penalty will show in the Other Taxes section of the 1040, Line 58 and no 5329 is required. However if there is an exception to the penalty, check the box to force a 5329. On the 5329, the amount subject to penalty is shown on line 1. Place your cursor on the box on Line 2 and click the arrowhead on the right-hand side of the field to see the exceptions to the penalty. Enter the appropriate code and the amount subject to additional penalty.
- If the distribution is from a Roth IRA, enter the first year of Roth contribution below Recipient’s name and address.
- Box 9b (this information may alternatively appear in box 5 although you cannot tell if it was “employee contribution” or “health insurance premiums” unless it states so on the 1099-R): If an amount appears in this box and a taxable amount is not shown in Box 2, the taxable amount box “2” remains blank and red until you complete the “Simplified Method” section of this form, described below (this will also “get the red out”).

1099-R-STATE SECTION

- Enter the State ID without dashes or spaces (TaxWise truncates the Carry-forward for the following year after 9 numbers). The State ID number is NOT the same as the Federal ID number. **If the State ID is blank on the paper 1099-R, enter nine nines or NA. This is not required if there is no State withholding.**
- The state distribution is a calculated field, if there is an exclusion from a rollover or simplified Method, the state distribution will NOT match the paper form and this is allowable.

1099-R-Exclusion Worksheet (for IRA’s) (Lower section of 1099-R screen)

- Make sure the Box 7 IRA is checked. Before starting, and when finished, check line 15 on the 1040 to make sure entries produce the correct result.
- An IRA rollover may be either:
 - A **DIRECT** transfer of securities or funds from one financial institution to another, e.g. no money passed through the hands of the taxpayer. If the funds were transferred from a Traditional IRA to another traditional IRA, Box 7 of the 1099-R should be coded “G”

and the amount will be shown as non-taxable on line 15b. This Exclusion Worksheet should have no entries.

- An INDIRECT rollover is when the taxpayer receives a distribution (box 7 indicates a normal or early distribution) but reinvests it in another IRA within 60 days. The amount rolled over will be non-taxable.
- Sometimes a withdrawal includes both a regular distribution (generally taxable) and a rollover (generally non-taxable).
- The exclusion worksheet is used to input the amount that will not be taxable or transfer the distribution information to form 8606 as necessary
 - Line 1-Enter the full amount of the rollover (not distribution or ROTH conversion)
 - This checks the “Check if rollover” box on 1040 line 15b
 - Click in the red box on 1040 line 15b and press F9 to link to the “New form 1040 IRA Rollover Explanation worksheet, and explain the rollover (e.g. IRA rolled from “bank ABC” to “savings & loan DEF”). Use only one line.
 - Line 2-Enter any amounts that are paid directly to a charity if the person was 70-1/2 when donation was made. This makes the distribution non-taxable. The TP does not get a charitable deduction
 - Line 3-amount rolled over to an HSA out of scope.
 - Line 4-Retired Public Safety Officers qualified health or LTC plan. Enter qualified amount (Up to \$3000) for health and/or LTC insurance paid from the retirement plan. Amount may be in Box 5 of the 1099-R or in a letter from the plan.
 - Line 5- If the taxable amount is determined and is shown as zero on Box 2 of the 1099R enter the entire amount of the distribution here. Do not enter an amount in any other circumstances as that would be out-of scope.
 - The box: “Ever made nondeductible IRA contributions” would add an incomplete 8606 (red) and would therefore be out-of-scope.
 - The box: “conversion from a traditional to a ROTH” would add a incomplete 8606 Part II (red)
 - The box “rollover from a qualified retirement plan to a Roth IRA” will add an incomplete 8606 part II (red)
 - If part of the distribution was converted to a ROTH, that part would be taxable and a completed 8606 (blue) will be added.

1099-R Simplified Method

If the taxpayer made after tax contributions toward the pension, a portion of the annuity payment is not taxable; **however if the starting date of the payments was prior to July 2, 1986 and there is no entry in Box 2, the entire amount of the taxpayer’s contribution probably would have been recovered under the “Three Year Rule” and you should enter the entire distribution amount in Box 2.**

- ***If box 2 is blank***, enter the total amount of employee contributions from 1099-R, box 9b on Line 1
- Check the appropriate box for the primary annuitant’s age when the annuity payment started (not his or her current age)
- Depending on the annuity start date, you MAY have to check one of the two boxes relating to annuity starting date. Note that the second box is used ONLY if this is a joint or survivor annuity, in which case the combined ages at the time the annuity started must also be checked. Errors in checking these boxes WILL result in an incorrect tax-exempt amount
- Enter the number of months for which payments were received during the tax year, which will usually be 12 except for the year in which payments started or ended.
- Enter the amount recovered tax free in prior years in the next box; you need to either (1) look at last year’s tax return to determine this amount or (2) calculate the amount using the monthly amount computed by TaxWise times the number of months prior to the current tax year – the latter approach may not be accurate as you don’t know what was used in prior years. This amount carries forward from prior year. This line must be completed if the client has been receiving their pension for more than 17 years.

- The non-taxable amount is calculated by TaxWise and taxable amount is reflected on Form 1040 line 16b. The Taxable Amount box on the TaxWise 1099-R will remain blank
- Printing the Simplified method results can be done by printing the 1099R form. This form will show all 1099Rs the Exclusion amount, Cost basis and Cost Balance.

OPM (Office of Personnel Management) 1099-R

The Office of Personnel Management makes annuity payments using the CSA 1099-R, which places information in a different sequence.

PAID BY OFFICE OF PERSONNEL MANAGEMENT
RETIREMENT SERVICES PROGRAM
P.O. BOX 45
BOYERS, PA 16017-0045

STATEMENT OF ANNUITY PAID

2008

OMB No. 1545-0119
Form: 1099-R
Distributions From
Pensions, Annuities,
Retirement or Profit-
Sharing Plans, IRAs,
Insurance Contracts, etc.

Copy C - For annuitant's records.
This information is being furnished
to the U.S. Internal Revenue

Form CSA 1099R (Rev. 1/2009)
This information is being furnished to the
Department of Treasury - Internal Revenue Service

PAYER's Federal Identification 52-6083699	Recipient's ID No. (Annuitant) 123-45-6789	Account number (Retirement Claim No.) CS A4256368
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums	PAID TO →	
7. Distribution Code(s) 7-NONDISABILITY		
9b. Total Employee Contributions		

1. Gross distribution	
2a. Taxable amount	
4. Federal Income Tax Withheld	
State 1 CA	10. State Income Tax Withheld
State 2	10. State Income Tax Withheld NONE

To separate, tear on perforation

Box 2 – Unknown Taxable Amount

If Box 2a shows “Unknown” for the taxable annuity amount and there is an Original Contribution amount in Box 9B, follow the procedures below.

- Enter the information shown on the 1099-R.
- Check the Taxable Amount Not Determined Box.
- Determine the date the annuitant retired.
 - If the Box 7 Distribution Code is a 4 (death) and the deceased spouse had not yet retired, this will be the day after the date of death of the deceased spouse.
 - If the deceased spouse was receiving a pension, this will be the date the deceased spouse retired. The surviving spouse continues the exclusion as it had been calculated for the deceased spouse.
- If the date is before July 2, 1986, the taxpayer should have already recovered all of the contributions under the prior 3-year rule.
 - F3 or CTRL-SPACE BAR on Box 2 and Line 6 under Simplified Method at the bottom to take out the red.
 - The entire amount in Box 1 will be treated as taxable by TaxWise.
- If the date is after July 1, 1986, complete the Simplified Method calculation at the bottom of the form as explained above.
 - For a Distribution Code 4, if the deceased spouse had not yet retired, the age will be that of the surviving spouse on the day after the date of death.
 - If the deceased spouse had retired, use the age of the deceased spouse at the time of retirement.
- Be sure to calculate the amount that would have been excluded in prior years because the contributions may have already been fully recovered and an exclusion will not be allowable.
- See IRS Publication 721 for additional information.

Box 5 on this form is always Health insurance premiums that are deductible as medical on Schedule A. The amount includes only premiums for FEHB and Medicare B and or D. If the retire is having Dental, Vision or LTC insurance premiums deducted they will not be included in Box 5. The only way to see these other premiums is to see the taxpayers Form RI 38-38 Notice of annuity adjustment. Codes are shown on the back of the form. 42 is Federal Dental Insurance, 43 is Federal Vision insurance and 45 is a catchall that includes LTC.

DRAFT

RRB-1099-R – green form/“Tier 2”

This income is treated as a pension or annuity and is not taxed by California.

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092		2006		ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD			
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		3. Employee Contributions		COPY C - FOR RECIPIENT'S RECORDS. THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.			
1. Claim Number and Payee Code WA700-23-3757 1	4. Contributory Amount Paid		1,089.16				
2. Recipient's Identification Number 553-20-4052	5. Vested Dual Benefit						
Recipient's Name, Street Address, City, State, and Zip Code *****AUTO** 3-DIGIT 94 OWATD700012007*0542321 01 064358 ANNA M DONLY 15 CONDI AV SAN FRANCISCO CA 94126 	6. Supplemental Annuity						
	7. Total Gross Paid		1,089.16				
	8. Repayments		-0-				
	9. Federal Income Tax Withheld		-0-				
	10. Rate of Tax						
		11. Country				12. Medicare Premium Total	354.00

FORM RRB-1099-R **DO NOT ATTACH TO YOUR INCOME TAX RETURN**

Amounts on the RRB-1099-R	Enter in TaxWise on a 1099-R
EIN = 36-3314600	Payer's ID
Box 3	Box 9B and Simplified General Rule box 1
Box 4	Not entered
Box 7	Box 1
	Enter 7 in Box 7
Box 8 (repayment of benefits included in a prior year)	If the amount is under \$3,000, it can be claimed as a miscellaneous deduction subject to the 2% of AGI limitation on Schedule A If it is over \$3,000, it can be claimed on Schedule A as Other Miscellaneous Deduction not subject to the 2% AGI limitation
Box 9	Box 4
Box 12	Schedule A Detail or wkt 1
	Check "Railroad Retirement" box on TaxWise 1099-R- see next

In TaxWise 1099-R screen, to the left of boxes 10 and 13 are a series of boxes. You **MUST** check **Railroad Retirement** as this exempts the payment from CA taxes.

See F1 Help on the return for use of the Boxes. Instructions vary by State Check if applies	10 State Tax	11 State and State ID no	12 State Distribution
	Box 1 <input type="checkbox"/>	13 Local Tax	14 Locality Name
Box 2 <input type="checkbox"/>			15 Local Distribution
Box 3 <input type="checkbox"/>			
Railroad Retirement <input checked="" type="checkbox"/>			

Foreign Government Pensions

Generally you are dealing with pensions paid by U.S. companies; however you may encounter payments from foreign governments. These are out-of-scope except for Canada and Germany Social Security.

- Distributions from the Canada Pension Plan (CPP), Quebec Pension Plan (QPP) and Old Age Security (OAS), received by US residents, should be treated as Social Security Benefits and reported on Wkt1. German Social Security is also treated as Social Security Benefits and reported on Wkt 1. These are taxable on the California return (Enter the amount as an addition on line 21 of TW form CA CA)
- IRS publishes “Yearly Average Currency Exchange Rates”
<http://www.irs.gov/businesses/small/international/article/0,,id=206089,00.html>
- Other currency exchange rate sources are
 - Wall Street Journal
 - www.Oanda.com
 - www.XE.com
 - www.X-rates.com

LINE 17 - RENTAL REAL ESTATE, ROYALTIES, TRUSTS - (*limited*)

If there is a 1099-Misc with amounts in Box 1 or 2, and no associated expenses, then return is in-scope. From Form 1040, line 17; link to Sch E. On Sch E, complete line A and then go to line 3 or 4 and link to the 1099-Misc. Fill in the 1099-Misc. Info will be brought forward to the Sch E and 1040 Line 17.

LINE 18 - FARM INCOME - (*out-of-scope*)

LINE 19 - UNEMPLOYMENT COMPENSATION

Select 1099G from the tree

- Unemployment Compensation is taxable income for federal but NOT for CA and TaxWise will adjust.
- Check the appropriate box at the top to indicate if payment was made to the taxpayer or spouse
- Change the default Payer Name if required
- Do not enter “CA” on the tax withheld line unless there was CA tax withheld.
- The California form has two parts: Unemployment and Family Leave. Both are reported on Line 19 as unemployment. If you have both, open a new 1099G to enter the Family Leave.
- Amounts repaid for the current year will reduce the taxable income for the current year. Any amounts repaid for a prior year must be deducted on Schedule A, Miscellaneous deductions subject to 2% reduction and cannot offset the amount received for the current year.

LINE 20 - SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

Select 1040 Wkt1 from the tree.

Up to 85% of the social security payments may be taxed. The general guideline is that if other income plus tax-exempt income plus one-half of social security is less than \$25,000, none of the social security is subject to tax. See Foreign Government Pensions above for treatment of Canadian Social Security.


- Tax implications of social security payments:
 - Benefits received by children of a deceased taxpayer are NOT taxable on a parent’s return.
 - Disability Income (SSDI/SSI) is NOT taxable and the taxpayer should not have received a SSA-1099 for such payments – if they have a form, it is taxable income (subject to other income)
 - Payments are NOT taxed by California

- Completing the Social Security Worksheet (1040 WKT1):
 - Use section titled “Social Security and Railroad Tier 1 Benefits”
 - Both Taxpayer and Spouse are reported on the same worksheet
 - Enter amount from SSA-1099, Box 5 as “Social Security received this year”. If the amount is negative, the return is *out-of-scope*. If there is more than one SSA-1099, combine amounts on all forms to see if the amount is positive or negative. If positive, use the net positive number.
 - Enter amount from RRB-1099 Box 5 as “Railroad tier 1 received this year”
 - Enter the amount of Medicare B, C and D premiums in the box labeled “Medicare to Schedule A”, **do this as a matter of routine; that way it won’t be forgotten if the taxpayer itemizes deductions**
 - Enter any voluntary Federal tax withheld in the appropriate boxes
 - The remainder of the worksheet will calculate automatically, and place the taxable amount, if any, on the appropriate line of Form 1040
- Social security death benefits (usually \$255) received by spouse or children of a deceased taxpayer are NOT taxable
- Social Security or Railroad tier 1 (also tier 2) is NOT taxed by California

RRB-1099 – blue form/“Tier 1”

This is equivalent to Social Security and it is not taxed by California.

UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092 PAYER'S FEDERAL IDENTIFYING NO. 36-3314600 1. Claim Number and Payee Code 2. Recipient's Identification Number Recipient's Name, Street Address, City, State, and Zip Code  OWATD700012007*0542321 ANNA M DONLY 15 CONDI AV SAN FRANCISCO CA 94126 01 186 064358	2006	PAYMENTS BY THE RAILROAD RETIREMENT BOARD 3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006 4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006 5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006 6. Workers' Compensation Offset in 2006 7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2005 8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2004 9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2004 10. Federal Income Tax Withheld 11. Medicare Premium Total
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COPY C - FOR RECIPIENT'S RECORDS.

THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.

FORM RRB-1099 **DO NOT ATTACH TO YOUR INCOME TAX RETURN**

Amounts on the RRB-1099	Enter in TaxWise on the 1040 WKT1
Box 5	Railroad Retirement (not social security) for taxpayer or spouse
Box 10	Federal tax withheld for taxpayer or spouse
Box 11	Medicare to Schedule A detail for taxpayer or spouse
Any amount in boxes 7, 8 or 9	Makes the return <i>out-of-scope</i>

Lump Sum payments of Social Security

Enter total Social Security received in the normal manner. However using the lump sum procedure may be more beneficial for the client, and they should be referred to a tax professional for comparison.

LINE 21 - OTHER INCOME

Use line 21 to report any income not reported elsewhere in the return, such as gambling winnings, prizes, awards, jury duty pay, Alaska Permanent Fund dividends, recovery of itemized deduction, and hobby income.

Always enter Other Income items reported on an IRS form such as a W-2G or 1099-MISC before entering income not reported on an IRS form. See “Entering Multiple Types of Other Income” below if there is more than one type of Other Income reported on Line 21.

Gambling Winnings-Form W-2G

- Select W-2G from the tree
- Check the box for Taxpayer or Spouse at the top of the form
- The Payer’s Federal ID number (EIN) is required
- TaxWise will calculate the Name Code
- Verify that the payer’s name and ID match the W-2G exactly
- Complete the money fields as applicable, making an exact match of the paper W-2G
- The box on the lower left-hand side of this form (“See F-1 Help on the state return for use of this box”) should be checked **ONLY when CA Lottery winnings** are being reported. This check mark results in the proper adjustment on TW form CA CA for the winnings and associated losses.

<p>*See F-1 Help on the state return for the use of this box..... <input type="checkbox"/></p> <p>Instructions vary by state.</p>	13 State and state ID	14 State tax withheld
<p>Gambling losses to be transferred to Schedule A.....</p>	<p>0.</p>	

- If the taxpayer has a stack of W-2G’s, THEY can add them up and you can enter the total of the winnings in accordance with “without supporting form” below. If there are Regular winnings and California Lottery winnings, they should be reported separately. The California Lottery winnings will have to be entered as a subtraction on CA Schedule CA if not entered on W-2G’s.
- “Gambling losses to be transferred to Schedule A”:
 - Gambling losses can be deducted on Schedule A up to the amount of the reported winnings. TaxWise will limit aggregate losses to the maximum of reported winnings
 - If you entered a summary of W-2G’s “without supporting form”, enter the losses up to the reported income on Schedule A as an “Other Miscellaneous deduction. Allowed California Lottery losses will have to be subtracted from California Itemized deductions on CA Schedule CA.
- If the Taxpayer takes the standard deduction, the losses cannot be deducted
- Show CA lottery losses as gambling losses on the W-2G covering the CA Lottery winnings, as CA does not allow CA Lottery losses to be deducted on the state return as the winnings are not taxable. TaxWise should do this correctly on the TW form CA CA.
- When an entry is made in the last field, you must move the cursor to another field with the mouse to see the entry, as you cannot Tab to another field when on the last field of a form.
- Form 1040, page 1, the Other Income “Type’ box will now be red – resolve this by entering “Gambling winnings” or “CA Lottery” as appropriate

1099 MISC income

- Form 1099-MISC can represent several different types of income.
- Look at the 1099-MISC carefully to determine the type of income. Boxes 5, 6, 8, 10, 13, and 15b are out of scope.
- 1099-MISC income for boxes other than 1, 2, and 7 is reported by selecting the 1099 MISC attached to 1040 pg 1 (if available on the tree), or linking from the Line 21 Amount field to “NEW Miscellaneous Income form 1099 MISC”. **Do not use the 1099MISC under schedule C out of the tree except for amounts reported in Box 7.**
- Be careful to open the correct parent form; use the chart below as a guide
- Copy the information exactly from the paper form to TaxWise.

1099-MISC Box	Type of Income	Open this parent form	Link to 1099Misc from this line
1	Rental income with no expenses	Schedule E	3
2	Royalty income with no expenses	Schedule E	4
3	Court & arbitration awards & damages	<i>Out-of-scope</i>	
3	Disability Income	<i>Out-of-scope</i>	
3	Hobby Income	1040	21 – amount
3	Jury Duty pay	1040	21 – amount
3	Prizes	1040	21 – amount
3	Indian Tribal Income distribution	1040	21 – amount
7	Non-Employee Compensation (self-employment income). Includes CA home care when reported in box 7 on a 1099-MISC	Schedule C	1
7	Notary Fees – see instruction under 1040 Line 12	Schedule C	

Other Income Without a supporting IRS form

Link from the Line 21 Amount field (NOT the right hand column) to the “NEW Form 1040 Line 21 Other Income” Statement (NOT a scratch pad) and enter any income for which TaxWise does not have a supporting form.

Some examples of income generally not reported on an IRS form are:

- Jury Duty Pay
- Election Officer Pay
- Executor and Conservator Fees
- Recovery of itemized deduction

Employee Unreported Tip Income – Form 4137

Tip income is reported on Line 7 of Form 1040 as part of wages. See instruction for Line 7. This should not be reported as Other Income

Payments from Qualified Education program-Form 1099Q

If these distributions were used for Tuition and fees, they are not taxable. Link from 1040 Wkt 2 Education Savings Accounts, to the ESA Worksheet and enter information on the lower half “Distributions from Qualified Education Programs”.

Distributions from LTC insurance plans-Form 1099 LTC

Information from this form is entered on Form 8853 Page 2. Any Taxable Payments transfer to Form 1040 line 21. Enter the TYPE as “1099-LTC”. Use Form 1040 line 21 Other Income if there are multiple Line 21 items.

HSA distribution

1099-SA information from this form is entered on Form 8889 Part III. If a distribution is received, a form 8889 and Form 1040 must be filed even if there is no other income. If all of the distribution was used for qualified medical expense, there is no taxable amount. If used for other than qualified medical expense, the taxable payment transfers to Form 1040 Line 21. Enter the Type as 1099-SA. Use Form 1040 line 21 Other Income if there are multiple Line 21 items. There is a 10% penalty for non-qualified distributions that transfers to line 59 other taxes.

Cancellation of Debt-Credit Cards, Car Loans, Principle Residence, second mortgages, lines of Credit.

If you and the Quality Reviewer are certified in Cancellation of Debt, enter the Cancelled Debt income on Line 21 or exclude debt on Form 982

Entering Multiple Types of other income (The TYPE field)

- If all entries are from supporting forms, the TYPE field will be RED and you must enter a description of the amount, e.g. "GAMBLING WINNINGS".
- If you have amounts carrying from W-2G and/or 1099 MISC forms, AND you have income to enter for which there is no supporting form, do the following:
 - Complete the supporting forms (W-2G's and 1099Misc's) first.
 - In the Amount field on line 21, link to "NEW Form 1040 Line 21 Other Income".
 - The Amount total from supporting forms is transferred automatically. You can enter the description (if all the same) or you can break it down on as many lines as needed.
 - Enter the items for which there are no supporting forms.
 - The TYPE Field will be yellow and the amount field (showing totals from forms listed in the red instructions below the TYPE line) will be different from the right hand column. This is OK. The Printed form will show "SEE STMT" and a statement will be attached to the return.
 - If the TYPE field is yellow or changes from Red to Yellow when you click it, you must select "NEW Form 1040 Line 21 Other Income" (NOT a scratch pad) and enter the income description on this form.
- Be sure to verify that the total shown on Line 21 is correct and all other income amounts have been reported.
 - If the total is incorrect, you may need to check the box in the red instructions under the Type field and manually enter the amounts from the forms on the "Form 1040 Line 21 Other Income" form.

ADJUSTMENTS TO INCOME

LINE 23 - EDUCATOR EXPENSE

- Select 1040 Wkt2 Student Loan, Education Worksheet from the tree. Educators can deduct up to \$250 of class related expenses paid even if they do not itemize deductions

LINE-24 - CERTAIN BUSINESS EXPENSES – (out-of-scope)

LINE 25 - HEALTH SAVINGS ACCOUNT

Enter amount contributed to HSA on form 8889. Amounts contributed by employer are shown as code W on line 12 and are transferred to Form 8889 Part1 (these are not deductible). Form 5498-SA should be received by the taxpayer showing the amount of contribution during the year. Contributions may be made up to April 16, 2012 if they are designated for 2011. After completion the form 8889 deduction is transferred to Line 25.

LINE 26 - MOVING EXPENSES – (out-of-scope)

LINE 27 - ONE-HALF OF SELF EMPLOYMENT TAX

This amount is transferred from Schedule SE by TaxWise

LINE 28 - SELF EMPLOYED SEP, SIMPLE PLANS – (out-of-scope)

LINE 29 - SELF-EMPLOYED HEALTH INSURANCE - (out-of-scope) -

LINE 30 - PENALTY ON EARLY WITHDRAWAL OF SAVINGS

Enter on the “Interest Statement” under “Early Penalty”, TaxWise transfers it to line 30.

LINE 31 - ALIMONY PAID

- A deduction may apply if the taxpayer(s) made payments under a divorce or separation decree – refer to Pub 17.
- Alimony does NOT include child or family support, which is NOT deductible
- Enter both the recipient’s Social Security number and the amount
- If alimony was paid to more than one individual, highlight the SSN field and F9 to bring up a worksheet. Enter each recipients SSN(s) and amount(s) paid, these will be summed and brought forward to Form 1040.

LINE 32 - IRA DEDUCTION

- The taxpayer, and spouse if filing jointly, may each make contributions, subject to age and total income limits (listed on the TaxWise IRA Wkt)
- If covered by a retirement plan, they may be able to take an IRA deduction subject to AGI limits
- Link to “IRA Wkt - Traditional, Roth IRAs, ESAs Worksheet”, enter contributions to a Traditional IRA on line 10 and to a Roth on line 20 – TaxWise will check the contributions against the current year’s limits
- Non-deductible contributions require completion of form 8606 which will be (*out-of-scope*) :

LINE 33 - STUDENT LOAN INTEREST DEDUCTION

- Select the 1040 Wkt2 Student Loan, Education Worksheet from the tree.
- Enter interest paid on line 1of the worksheet. TaxWise calculates the allowable adjustment amount.

LINE 34 - TUITION AND FEES DEDUCTION

- Select the 1040 Wkt2 Student Loan, Education Worksheet from the tree
- Form 8917 is added to the return after a Qualified expense is entered in the Tuition and Fees section of Wkt2
- See instructions under Line 49 Education Credits for entering education expenses
- This deduction/credit is NOT allowed by CA and TaxWise adjusts the CA return

LINE 35 - DOMESTIC PRODUCTION ACTIVITIES – (*out-of-scope*)

LINE 36 - OTHER

Jury Duty pay given to employer shows up on this line

TAX CALCULATION

LINE 40 - DEDUCTIONS

Standard Deduction

The Standard Deduction is the default. If there is any doubt whether to itemize, complete Schedule A.

Schedule A

TaxWise will make the correct calculations for both federal and state and will choose Standard Deduction or Itemized if better. Schedules A and A detail have boxes for TSJ (Taxpayer, Spouse, and Joint) and has fields for Taxpayer and Spouse for listing mileage. These do not have to be checked and all mileage can be entered under taxpayer.

Sch A- Line 1-Medical Expenses

RULE: Medical expenses (deductions) are entered on the “A Detail” Worksheet under Schedule A.

- Medical miles
 - Enter mileage driven for costs associated with a personal vehicle
 - All other transportation costs (parking, tolls, cab fare, airplane tickets, etc.) are entered as “Transportation” under “Other Medical Expenses” below
- Insurance Premiums
 - Medicare premiums are entered on Social Security worksheet 1040 Wkt1 and automatically transfer to Schedule A. They should not be entered again
 - Include any other qualifying payments for health insurance premiums
 - Long Term Care Insurance may be deducted up to certain limits based on the age of the person at the end of the tax year. Enter total payment for each person. TaxWise will calculate the allowable amount.
- Other Medical expenses: It is not necessary to list each individual service provider; just itemize by category—e.g., doctors, dentist, prescriptions, transportation, etc using summary data furnished by Taxpayer
- If additional space is required, link to “NEW Addl A Wkt – Medical and Contributions Worksheet”
- Include all applicable expenses. TaxWise will calculate the 7.5% of AGI exclusion

Sch A- Line 5-Taxes Paid

- State and local taxes are deductible. The most common being CA and local income tax, real-estate taxes and personal property tax (Auto registrations)
- State and local (which includes CASDI entered in California W-2 Only section of W-2) taxes flow into Schedule A from W-2, 1099-R, and estimated payment entries
- For tax years 2004-2011 the taxpayer(s) can elect to deduct the LARGER of state income taxes OR state sales taxes (which come from a table based on the amount of the taxpayer's income) on their federal return.. Select the Sales Tax worksheet from the tree and provide the needed information for TaxWise to determine which is the larger figure:
 - TaxWise computes lines 1, 2, and 4 on the upper portion. Enter any non-taxable income such as child support and gifts, SSI, SSDI on line 3.
 - Line 1 should be defaulted to CA
 - Line 2 of the lower section is defaulted to NO for California and only needs to be changed if the taxpayer lived in Los Angeles County.
 - Line 3 of the lower section should be defaulted to Yes (or No if there is no local sales tax) and your local rate should be entered.
 - Line 4 enter the blended General State Sales Tax rate of 7.7500
 - Line 8 of the lower section should be completed with any additional sales tax on a motor vehicle, aircraft, mobile home, or building materials.
 - The amount on line 9 of the lower section of the Sales Tax worksheet is transferred to Schedule A line 5b

CA Sales Tax Rates – Line 3 should have the additional Sales tax rate from <http://www.boe.ca.gov/sutax/pdf/districtratelist.pdf>. If the taxpayer(s) resides in a county/city with a different rate, check YES on Line 3 of the Sch A Tax worksheet and enter the correct rate for that county. If there is no County/City sales tax check “No”.

Sch A- Line 6- Real Estate Taxes

Real estate taxes are generally paid in two installments due in November and February, but not late until a month later. The amount entered should be the amount actually paid in the tax year for the taxes based on the assessed value of the property only. Enter real estate taxes paid on the personal residence and any other real estate. There is a line for your Principal Residence Real Estate tax, and another line for “Other Real Estate tax”. California 540 CA will require the property address and parcel number to carry the property tax to the California itemized deductions.

Sch A- Line 8-Other Taxes (Vehicle License Fees)

- Vehicle License Fee (VLF) may be deducted under “Other Taxes”. Enter “DMV” in TYPE field and tax in amount field
- Total amount paid to DMV includes non-deductible registration fees and may include unpaid parking tickets. Only the VLF amount is deductible. This amount is also listed on the Registration Card in their vehicle (near the bottom coded as “Lxxxx”)

Sch A- Line 10-Interest Paid

Normally, this is limited to the interest paid (nothing is paid on a reverse mortgage) on a home mortgage(s), and any “points” paid during the tax year in conjunction with a mortgage(s). Interest paid on mortgages on second homes, motor homes and boats that provide basic living arrangements generally qualify. This is usually reported on form 1098. Total the Interest and points paid and enter the total on the line labeled “Home mortgage interest and points from Form 1098, not listed above”. If there are multiple mortgages, link to a scratch pad to enter each interest item. Refer to Pub 17 for Interest deduction rules

Sch A- Line 12-Points not reported on Form 1098 (paid for a refinance)

These must be amortized over the life of the loan. Divide the Points amount by the months of the loan (30 years =360 months) and multiply by the months that the loan existed this tax year. Enter the result directly on this line. If the loan is refinanced, all the remaining Points from the original loan may be deducted.

Sch A- Line 13-Total Mortgage Insurance Premium

Premiums (“PMI”) paid and/or accrued for qualified mortgage insurance (reported on the 1098), after 2006 in connection with home acquisition debt on a qualified home are deductible. The home must have been purchased after 2006.

Report Total qualified mortgage insurance premiums and TaxWise will determine the allowed amount. This deduction is not allowed on the California return and is automatically adjusted by TaxWise on California CA line 41.

Sch A- line 16-Contributions – Cash (includes checks, money orders, credit card payments)

RULE: Charitable contributions are entered on the Schedule A Detail Worksheet

- While we do not need to see any proof, the client should know that no deduction is allowed unless the taxpayer has either:
 - Bank records (canceled check or bank account statement) OR
 - Written acknowledgment from the charity documenting Charity name, amount and date
 - Contributions of \$250 or more must have written acknowledgement AND bank record.There are limits on the amount of deductions that a taxpayer may make to certain organizations during any one tax year. However most contributions we will encounter are in the 50% category (this means that the deduction for this year cannot exceed 50% of the taxpayer’s AGI; the balance carries over to next year. The entire amount of the deduction is allowed for the current year if it is under this limit)– refer to Pub 17
- Enter mileage driven by the taxpayer(s) for non-reimbursed volunteer work or other charitable use. TaxWise will calculate the allowable amount
- In addition, non-reimbursed travel expenses (parking, tolls, etc.) can be itemized
- It is not necessary to list each contribution to the same qualifying organization; just indicate the total by organization – e.g., Church, Red Cross, Boy Scouts, United Way, etc.
- If additional space is required:
 - If “Addl A Wkt” was NOT used for Medical, link from last line to “NEW Addl A Wkt – Medical and Contributions Worksheet.”, otherwise
 - Open the existing worksheet from the TaxWise tree on the left side of the screen

Sch A- Line 17- Contributions – Other than Cash

Non-cash contributions exceeding \$5000 make the return *out-of-scope*

- If total non-cash contributions exceed \$500, do not enter anything on the A detail sheet under other than cash contributions, open Form 8283 to list non-cash contributions. Each donation date (Various is not allowed) is listed separately. Note columns d, e, and f should not be filled in if that donation is under \$500. For column h, Method used to determine FMV, “Thrift shop value” usually applies. Use 1098C for vehicle donations. Form 8283 Section B is ***out-of-scope***
- If a 1098C is received for a donation, that 1098C, and a copy, must be attached to an 8453 and given to your ERO. Check the Yes box in the caution section at the top of the Form 8283 to cause the 8453 to print.
- If the total of all non-cash donations is \$500 or less, list non-cash contributions separately in the appropriate section of the A-Detail form
- The taxpayer should have an acknowledgment for any contribution of \$250 or more.
- Amount of contribution is FMV of the item at the time of the donation
- Clothing and household items must be in good used condition or better
- Records of items and amount donated should be retained by taxpayer

Contributions – Carryover

Check the previous years return for any “carry over contributions” and enter the amount. If “proforma” is used, this will occur automatically.

Sch A- Line 20-Casualty and Theft Losses – out-of-scope

Sch A- Line 21-23-Miscellaneous deductions

- The total of miscellaneous deductions (except gambling losses) must exceed 2% of AGI in order to be deductible.
- Employee Business expenses may be entered on Form 2106-EZ
- Enter items on appropriate lines in the “Miscellaneous” section of Schedule A.
- TaxWise will calculate the 2% of AGI exclusion.

Sch A- Line 28-Other Miscellaneous Deductions

If you have one item to enter, and it does not come from a supporting form, you can enter the type and amount directly.

If you have a second item to enter, that does not come from a supporting form, use “New Other Deductions-Schedule A Line 28 Other Deductions” not a Scratch pad.

The only allowable entries in the Type Field are:

AMORTIZABLE BOND PREMIUMS
CASUALTY AND THEFT LOSS
GAMBLING LOSSES
IMPAIRMENT-RELATED WORK EXPENSES
CLAIM REPAYMENTS
UNRECOVERED PENSION INVESTMENTS
SCHEDULE K-1

Gambling Losses

Gambling losses are NOT subject to the 2% exclusion. Enter gambling losses on Form W-2G. California lottery losses should be entered on a W-2G coded as a California lottery. If a Scratch sheet is used instead of a W-2G, enter gambling losses but not more than gambling income.

CLAIM REPAYMENTS

If the taxpayer had to repay more than \$3000 that they had included in income in an earlier year, enter repayment amount on line 28. If less than \$3000, the repayment is listed on line 23 and is subject to the 2% reduction.

UNRECOVERABLE PENSION INVESTMENTS

If a deceased person with has a pension without survivor benefits, any unrecovered pension contributions may be recovered here on the final return.

Loss on Annuities

If the Taxpayer cashed in an annuity, they will have received a 1099-R with the amount they received. If the investment (Box 5 or Box 9b) is greater than the amount shown in Box 1, the net loss can be claimed as a miscellaneous itemized deduction.

DRAFT

CREDITS

NON-REFUNDABLE CREDITS

Non-refundable credits only offset tax due, whereas refundable credits may generate a refund. Note that even if the tax is zero, some (or all) of the Child Tax credit may become a refundable Additional Child Tax Credit.

LINE 47 - FOREIGN TAX

- Total Foreign Tax paid up to \$300 single or \$600 joint should be entered directly on the top of TaxWise Form 1116 input screen. They can (note that in 2009 this did not carry to the final return in all instance, and should not be used) also be entered directly on Form 1040, page 2. Use a scratch pad (if there are multiple payments).
- Taxes paid over these limits make the return *out-of-scope*.
- This credit is NOT allowed by CA.

LINE 48 - CREDIT FOR CHILD & DEPENDENT CARE EXPENSES

This MAY apply if taxpayer paid someone else to care for (1) a dependent child who was **under age 13 when child care was provided** OR (2) their dependent or spouse who could not care for him/herself:

- The “DC “ column next to this dependent on the MAIN INFO form must be checked to add form 2441 to the TaxWise tree - UNLESS the person being cared for is the spouse
- **If the dependent is the spouse**, you must manually add the 2441, then go to the bottom of the 2441 and check the spouse box and put 12 in the “Number of Months Disabled” section. This will populate item 2a with the spouse’s name and SSN – otherwise the form will not accept the spouse’s name
- Enter required information about the care provider – in this case the SSN or Tax-ID will not show dashes. (Return cannot be e-filed if EIN/SSN of provider is unavailable)
- If additional space is needed for more Care Providers:
 - link from the care provider name field to “NEW Providers – Form 2441 Line 1a and Line 1b”
 - link from the amount paid field to “New ID and amount-Form 2441 Line 1c and Line 1d”
- Enter the information about the person(s) receiving care:
- If dependent care benefits were paid by the employer, make sure that this amount has been entered correctly in the TaxWise W-2 form
- The Child Care credit (if any) transfers to Form 1040, Page 2
- When form 2441 is completed, TaxWise adds CA form 3506 to the forms tree
- Remember that in the year which the child turns 13, these expenses can only be for the part of the year before his/her birthday

LINE 49 - EDUCATION CREDIT

If the taxpayer paid, or used loans, for qualified expenses for themselves or a dependent to enroll in or attend an eligible educational institution, an education credit may apply. A dependent cannot take this credit, but they will report taxable scholarship income. The important thing is that each student can use **ONLY ONE** credit/deduction, although each (different) student on a return can use different credits/deduction. The student should receive a Form 1098T, from the educational institution, which shows Tuition and fees paid as well as Scholarships

- Select Form 8863 from the Tree
- **American Opportunity Credit** –For 2009 and 2011, this credit is applicable to the **first four years** of postsecondary education, if the student is enrolled at least half time. Up to 40% (maximum \$1000) of this credit may be refundable. Allowable expenses are Tuition, fees, books, supplies and computers. Enter in part 1 of form 8863 (note that the credit will be split between Line 49 and Line 66).
- **Lifetime Learning** – all other postsecondary education not covered under the American Opportunity credit. Allowable expenses are only Tuition and fees.

Expenses used for calculating either credit must be reduced by any scholarship amount designated for those expenses.

WHICH EDUCATION CREDIT IS BEST

A taxpayer can only take the Tuition and Fees adjustment OR an Education Credit for each student.

For 2010 and 2011, if the student qualifies the taxpayer for the new American Opportunity credit, in almost all cases it will be the most beneficial credit. Because it is a partially refundable credit, the expenses include course materials as well as tuition and fees, and the AGI limit is higher than the lifetime credit, it will be more beneficial than the lifetime learning credit.

If the student does not qualify for the new American Opportunity credit because they are not a half-time student or are not in their first four years of college, then you must determine whether the tuition and fees deduction or lifetime learning credit is most beneficial. Follow the instructions below to determine whether the credit or deduction is most advantageous.

Education expense may also be taken as a Business expense on Schedule A or Schedule C.

The recommended procedure to determine whether an Education credit (Lifetime or AOTC) or an adjustment to income (Tuition and Fees) is better:

First complete ALL other aspects of the return. Then:

- Enter the Tuition and Fees adjustment amount only on Wkt2. Note the refund or balance due by using refund monitor or F7, and remove the information
- Enter amount information for the Lifetime Learning credit. Note the tax result and remove the information.
- Enter amount information and if Taxpayer is Under 24, has a living parent, and does not provide half his support through earned income check the box on Page 2 of Form 8853 below line 13 for the AOTC Credit, **if the individual qualifies**. Note the tax result; if this produces the best result, you are done; otherwise remove the AOTC Credit and
- Re-input the Lifetime Learning Credit or Tuition and Fees adjustment if it produced a better result
- If there are multiple students, proceed one student at a time. All various combinations should be tried
- Note that if an Education Credit calculates to zero, you **MUST** remove the 8863 (or the entries) from the Forms Tree; otherwise it will cause an e-file reject.

Alternate Method for determining best credit:

- Use the “What If” mode and create three separate scenarios
- Replace original return with the best scenario. Close scenario and select Yes to replace the original

Repeat if there are additional students

LINE 50 - RETIREMENT SAVINGS CONTRIBUTION CREDIT

Select 8880 from the tree. This form is automatically added to the Tree when retirement contributions are entered on W-2's or IRA contributions are entered.

- This credit is available to taxpayers who made contributions to IRAs, Roth IRAs and other qualified plans, AND their adjusted gross income was below certain maximums (the amount of the credit decreases as AGI increases). Entries of qualified retirement plan information from Box 12 of W-2 or IRA contribution on IRA Worksheet will transfer this information to form 8880, which will then be “red” on the Forms Tree.
 - Open “Form 8880 Qualified Retirement Savings Credit”
 - Answer student question
 - Answer the questions about the plan distributions. Use F3 or CTRL-Spacebar to confirm a zero distribution.
 - Any credit computed here will be carried forward to Form 1040, page 2. Refer to the instructions on Form 8880 or refer to Pub. 17

LINE 51 - CHILD TAX CREDIT

This credit is for taxpayers who have a qualifying child under age 17 (EOY). It is in addition to the Child and Dependent Care Expenses and Earned Income credits.

- TaxWise automatically places “X” next to the dependent name on the MAIN INFO form once a date of birth is entered for a dependent who was under the age of 17 as of the end of the tax year
- If the CTC applies, TaxWise creates and completes form 1040 Wkt3
- This deduction/credit is NOT allowed by CA.

If the client's tax liability is less than the allowable Child Tax Credit, the client MAY be eligible to claim the refundable Additional Child Tax Credit. TaxWise will complete form 8812 and carry the credit amount forward to Form 1040, page 2.

LINE 52 - RESIDENTIAL ENERGY CREDITS

Form 5695 is not in the Tree and will have to be added by “Find a Form” or linking from Line 52

- Non-business Energy Property Credit (Part I of the 5695). A credit is allowed for new energy efficient property installed in or on a main home. The credit is limited to 10% of the cost of qualified energy efficient improvements such as adding insulation, energy-efficient exterior windows or doors, and energy-efficient heating and air conditioning systems. For 2011 there are lifetime limits for each property type. Main Home address is also required. Data from prior year 5695's is required if form 5695 was used.
- Out-of-scope Residential Energy Efficient Property Credit (Part II of the 5695). Credit is up to 30% of qualified solar, wind energy, geothermal heat, and qualified fuel cell property costs.

LINE 53 - OTHER CR-ALTERNATIVE VEHICLE CREDITS – (out-of-scope)

LINE 53 - OTHER CR-CREDIT FOR THE ELDERLY AND DISABLED

This credit applies ONLY if the taxpayer or spouse (1) was age 65 or older at the end of the tax year OR (2) retired on permanent and total disability, AND had taxable disability income subject to income limitations. Most Tax-Aide clients are over age 65 and are collecting Social Security, and therefore DO NOT qualify for this credit. However, with SS retirement age increasing, we may see more Schedule R's. Refer to Pub 17 to determine if a client is qualified for this credit. This credit is NOT allowed by CA

- If the taxpayer(s) have no Social Security income, TaxWise will automatically calculate the credit

- If the taxpayer(s) is on Permanent Disability, which is indicated by checking the box on the MAIN INFO form under Taxpayer Information:
 - Complete “Sch. R Part II “Statement of Permanent and Total Disability”
 - Enter the amount of non-taxable veterans’ pension, annuity or other disability income

Make sure all Social Security payments (1099-SSA and RRB-1099) have been entered to avoid generating an incorrect credit.

OTHER TAXES

LINE 56 - SELF EMPLOYMENT TAX

TaxWise calculates Schedule SE using entries from Schedule C.

LINE 57 - UNREPORTED SOCIAL SECURITY AND MEDICARE TAX

This comes from Form 4137 Tip income not reported on W-2s.

LINE 58 - ADDITIONAL TAX ON IRA’S, OTHER QUALIFIED PLANS

- This is the 10% penalty calculated on Form 5329 for early withdrawal before age 59-1/2. Form 5329 is not printed or attached to the return unless an exception to the penalty is claimed. . However if there is an exception to the penalty, check the box to force a 5329 on the 1099-R. On the 5329, the amount subject to penalty is shown on line 1. You can look up the codes by going to the TWO Home page and clicking on “IRS Forms and Publications” to get the instructions for Form 5329. Enter the appropriate code and the amount subject to additional penalty.

LINE 59B - HOUSEHOLD EMPLOYMENT TAXES – (out-of-scope)

LINE 59C - 2008 HOMEBUYER CREDIT RECOVERY FORM 5405

2008 homebuyers, who received the First Time Homebuyer credit Line 68 of the 2008 return which must be repaid starting in 2010, will have to complete Part III of form 5405 to make repayment and/or report if there has been a disposition of the property, including death of a joint owner and divorce.

PAYMENTS AND REFUNDABLE CREDITS

LINE 61 - FEDERAL INCOME TAX WITHHELD

The tax withheld is transferred to this line from entries on the W-2’s, 1099’s. For 1099 withholding not listed elsewhere (e.g. 1099-B), enter on the line below “Federal Income Tax Withheld” or if there are multiple amounts, link from the “Federal withholding from 1099s” field and enter on a scratch pad.

LINE 62 - 2011 ESTIMATED TAX PAYMENTS

LINE 63 - 2011 ESTIMATED TAX PAYMENTS LINK TO WKSHT

FORM 540 (CALIFORNIA) LINE 72 STATE ESTIMATED TAX PAYMENTS

These are payments that the taxpayer HAS MADE using either 1040ES (federal) and/or 540ES (CA) for the CURRENT tax year, The Final Steps section explains how to prepare payment vouchers for NEXT year’s estimated tax payments as well as applying any overpayments (refunds) from this return to the NEXT year’s estimated tax

Federal Estimated Tax Payments

Open the form by clicking on F/S Tax Pd

From Last Year – enter any refund amount from last year that was credited toward estimated taxes for the current year.

Enter payment dates shown on taxpayer's checks.

Enter actual amount paid in each quarter.

Yellow fields to the right are calculated fields. TaxWise calculates underpayment penalties on the estimated payments, if applicable. Do not attempt to change these fields.

State Estimated Tax Payments (Page down to the State section on the same form)

- Note that this section loads horizontally – unlike the federal section above
- All payments for state taxes (for any tax year) made during the tax year will be transferred to Schedule A, however only the payments for the current tax year will be transferred to the CA tax return as taxes paid.

If the taxpayer **paid a balance due on last year's state tax**, or a prior year enter on the first line under the matrix.

The second line is for balance due payments to another state.

If the taxpayer **paid the final (January) estimated payment for the previous year's tax in January of last year**, enter on the third line.

The fourth line is for the final (January) estimated payment for the previous year's tax in January of last year, paid to another state.

REFUNDABLE CREDITS

The following credits are refundable to the taxpayer, even when no tax is owed, and therefore act as though they are a payment of taxes due.

LINE 64 - EARNED INCOME CREDIT

Generally EIC is available to people who have earned income, subject to income limits, and have at least one qualifying child. For working low income taxpayers, EIC is available to taxpayers age 25 (EOY) and under age 65 (EOY) who do NOT have any dependents. If married filing joint, only one taxpayer has to meet the age requirement.

- TaxWise recognizes EIC eligibility and calculates the credit automatically; however **when dependents are included on the return, the “EIC” box on the MAIN INFO form must be checked** – TaxWise will determine whether or not EIC applies.
- If the return qualifies for EIC credit, you must complete the “Sch EIC- Earned Income Credit” form and the “Sch EIC Wkt-Earned Income Credit Worksheet” which TaxWise has added to the Tree.
- When completing Sch EIC, answer only question 4a **OR** 4b – answering both causes the return to be rejected by the IRS
- Answer all questions to remove the red on the worksheet.
- Sch EIC wksht-Line 7 asks if “the child is unmarried”. Answer YES. Check this question if the EIC does not appear on the 1040 as it is a common error
- Form 8867 may now be required and will be sent with the return with entries transferred from Sch EIC Worksheet if required.

LINE 65 - ADDITIONAL CHILD TAX CREDIT

If a taxpayer’s tax liability is less than the allowable non-refundable Child Tax Credit, the taxpayer may be eligible to claim the refundable Additional Child Tax Credit.

- TaxWise computes this credit automatically and enters it on Form 1040, Page 2.
- The additional CTC is limited to the 15% of any earned income above the current year’s limit (\$3,000 for 2008-2012). The total of the two credits will be \$1000 or less per eligible child
- This deduction/credit is NOT allowed by CA

LINE 66 - AMERICAN OPPORTUNITY TAX CREDIT

Up to 40% (maximum \$1,000) of the American Opportunity credit will be refundable. Completion of Form 8863 will place the appropriate refundable portion on line 66, unless the taxpayer is under 24 and does not provide more than half their own support

LINE 67 - FIRST TIME HOMEBUYER CREDIT –FORM 5405 LINE 10

LINE 68 - AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE

Directly enter any payment made. When doing a Prior year return, remember to ask if payments have been made.

LINE 69 - EXCESS SOCIAL SECURITY

This entry is made automatically if there are multiple W-2s for an individual and the combined wages exceed the maximum subject to Social Security for the year.

LINE 70 - FEDERAL TAX ON FUELS FORM-4136 (out-of-scope)

LINE 71 - CREDITS 2439-8839-8801-8885 (out-of-scope)

DRAFT

CA ADJUSTMENTS & DIFFERENCES

This section identifies specific situations that MAY need to be addressed on CA returns.

ADDRESS FORMAT

The FTB database stores addresses using a shorter field format from that of the IRS database. If the entire address does not show in the limited field on Form 540 Page 1, FTB wants a breakout of apartment and suite addresses (numbers) into three separate fields – street address, type of unit, and unit number. If this is necessary, you must:

- Check the “Check here to change the address listed below” box on page 1 of the CA 540
- In the box to the right of the Federal address line, enter APT or BLDG,RM,SP,STE,UN
- In the box below, enter the apartment (or other) number.
- Remove the partial apartment (or other) information from the state address leaving just the street address.

HEAD OF HOUSEHOLD

- CA 4803e MUST be completed for CA returns being filed as Head of Household (HOH).
- Failure to complete the form will generate an error when running diagnostics
- This worksheet asks a series of Yes or No answers – complete it carefully to assure proper filing

MARRIED FILING SEPARATELY

This filing status can be used only if all 7 of the following conditions are met:

1. Couple lived apart the entire year
2. No commingling of funds
3. California full year resident
4. Name and Social Security number of spouse available (or Non-Resident Alien)
5. Spouse believed to take Standard deduction
6. Approved by Site Coordinator.
7. Marriage is recognized by the IRS (no SSMC)

Enter the spouse's name and Social security number on the MAIN INFO sheet, and answer the questions after the MFS filing status box. A “Comm Prop” form will appear “Red” on the tree. Check whether this is the husband or wife, and enter the total income in the first column. There should be no entries in the column for the non-client for the situations we handle. On Form 1040 line 39b, F3 or CTRL-Spacebar the MFS box. This return can be e-filed

BANK ACCOUNT INFORMATION

- If there is a Federal refund and a California refund, Form 540 page 3 must have the appropriate box checked to have the refund deposited in the same account as the Federal (do not enter bank account info on CA form), a different account, or mailed.
- If there is no federal refund but there is a California refund or if the CA refund is to go to a different account, the bank account information is entered on page 3 of the 540 See Direct Deposit under Finishing The Return.

The California refund can be split between two bank accounts. This is entered on page 3 of the 540

CA TAX ADJUSTMENTS

While California generally follows IRS tax law, there are a number of situations where California and the Federal law differ. These differences are handled on California Schedule CA(540) by either adding to, or

subtracting from the amounts reported to the IRS on Form 1040. In most cases, TaxWise will make the appropriate adjustments from entries on the Federal forms.

If income, interest and dividend entries were made correctly, California Schedule CA(540) should reflect the appropriate adjustments. Double-check these entries and correct any problems by returning to the appropriate income and interest forms on the Federal return. While adjustments can also be made directly to the TW form CA CA, that is NOT recommended (except for the few cases where adjustments are not made automatically by TaxWise) as it overrides any other subsequent changes to the return.

California taxes worldwide income except for:

- State income tax refunds
- Unemployment compensation
- Social Security Benefits (US only)
- Tier 1 and Tier II railroad retirement benefits
- California lottery winnings
- Interest paid on municipal bonds issued by the state of CA, or its Counties, Cities, or Agencies.
- Interest earned from US Government Savings Bonds, US Treasury Bills and any other bond of the US or US territories

Wages

Contributions made by an employer to a Health Savings Account and shown in box 12 code W of the W-2 are non taxable by the IRS but they are taxed by California and must be added to Line 7 Wages on Form 540 CA

Interest Income

- Interest income paid on US Savings Bonds, Treasury Bonds and other direct obligations backed by the US Government are generally not taxed by California, these should have been indicated by entering a “-” in the “State Adjust +/-” column in the worksheet for Schedule B. Direct obligations backed by the US Government include Federal Land Banks and Federal Home Loan Banks. They do not include Fannie Mae and Freddie Mac.
- Non-California state and municipal bond interest which is identified as Federal tax exempt should be indicated with a “+” in the State Adjust column on the worksheet for Schedule B, as it is taxed by California
- If a mutual fund has at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that percentage of interest is exempt from California tax. The proportion of dividends that are tax-exempt is shown on the annual statement issued by the mutual fund, and should be entered on the worksheet for Schedule B, however if less than 50% of such mutual fund is invested in these kinds of obligations, the entire income is taxable by California
- Certain mutual funds pay “exempt-interest dividends”, which are essentially the same as tax-exempt interest under a different name; the same 50% of assets rule applies

Ordinary Dividends

Generally, you will not have a difference between the amount of dividends reported on the federal and state returns

California State Tax Refunds

California does NOT tax California or other state income tax refunds

California Business Income

- CA Schedule C required for California if there is a Federal Schedule C. If there are multiple Schedule C's you must add CAA schedule C's to match.
- There is a “red” CA Schedule C on the tree. You have to open it up and check the box at the top of the form.

- There should be no adjustments or differences between Federal and California Schedule C's for the returns we are allowed to do.

Social Security, Railroad Retirement Benefits, Canada OAS

- California does NOT tax Social Security or any Railroad Retirement benefits (Tier 1 or Tier 2)
- California does Tax Social Security payments from foreign governments such as Canadian OAS, CPP, QPP Social Security payments. Enter the amount reported on the 1040 Wkt1 on line 21 of the TW form CA CA as an addition.
- When reporting tier 2, the "Railroad Retirement" box to the left of Box 13 on the TaxWise form 1099-R MUST be checked

Unemployment Compensation

California does NOT tax CA or other state unemployment compensation or Personal Family Leave.

California Lottery Winnings (W-2G)

- California DOES NOT tax California lottery winnings, therefore CA lottery losses MAY NOT be an itemized deduction on CA Sch A
- The total of any other gambling losses cannot exceed CA taxable winnings (TaxWise makes this adjustment)

Sale of Home by Widow/er within 2 years of date of death

California now conforms to this Federal allowance of \$500,000 exclusion for a widow/widower.

IRA basis difference

In 1975 when no CA IRA deduction was allowed, and in 1982 through 1986 when CA IRA deductions were limited to 1500 or 1750 or not at all if the taxpayer was an active participant in a qualified or government retirement plan or contributed to a tax sheltered annuity, there would be a California basis if the Federal deductible contribution exceeded the allowable California Deductible amount. The Client would have to produce records showing amount contributed for each of these years and the amount deducted for Federal and California (if allowed). The California basis would be applied to reduce the amount of taxable IRA distribution on the TW form CA CA. Any remaining basis would be carried over for future distributions. If the taxpayer does not have these detailed records, there will be no adjustment of the taxable IRA distribution. See CA pub 1005.

Capital Loss Carry-forward (CA D)

Capital Loss carry-forward amounts can vary between Federal and CA due to different depreciation rules therefore TaxWise does NOT automatically carry the amounts from the Schedule D forward to the CA Schedule D and removes the Federal Carry forward on California Schedule CA(540). Therefore if either a federal short and/or long term loss carryover is present, you MUST:

- Open CA D form and enter the total of the federal long and short term carry-forward amounts on line 6 as a negative number
- Verify that TW form CA CA has no subtractions or additions on the Capital Gain/loss line

Indian Tribal Members Income

This is usually reported on 1099MISC and entered on 1040, line 21 (other income). This is exempt from CA income tax only for members of the tribe who live and work on the reservation; you must make a manual adjustment in the subtraction column on line 21(f) of TW form CA CA.

HSA distributions

Any taxable HSA distribution on the Federal return is not taxable by California as the contributions have already been taxed.

Medical Expenses paid with HSA distribution

Since California taxed the funds put into the Has, medical expenses paid with HAS distributions are an allowable medical expense on the California return. And can be added on line 41 of the CA 540 CA

If any of the above situations apply to the return, check the California return carefully to ensure that they were handled correctly by TaxWise.

State Estimated Tax Payments

See State Estimated Tax payments section above.

DEDUCTIONS AND CREDITS NOT ALLOWED BY CA

- **The following federal Adjustments** are not allowed by California and TaxWise automatically removes them.
 - Educator Expenses
 - Tuition and Fees
- Federal credits are not carried to the California return.

CA ONLY CREDITS

Renter's Credit (Non-Refundable)

California allows this credit for qualified taxpayers, **subject to income limits**, who paid rent on a principal residence (which includes a mobile home for which the taxpayer pays rent for a space in a mobile home park) in CA for 6 months or more during the tax year that is not exempt from property taxes. This is separate from the CA Homeowners & Renters Assistance program which is currently suspended.

- Scroll down to the "Total Tax" Form 540 Page 2 Line 64. If this is zero, the taxpayer will not get any benefit from a renter's credit and you can therefore answer "NO" to the question "Did you pay rent" and avoid filling out the renter's credit worksheet.
- Checking the appropriate box (Did you pay rent....) on page 1 of the CA 540 YES, adds the Renter's Credit Worksheet to the TaxWise tree. Complete the optional worksheet. TaxWise will calculate the credit if the taxpayer(s) qualifies (based on income limits) AND owes CA taxes. If the taxpayer(s) do not qualify, it is most likely because their income exceeds the current year's income limits
- The worksheet asks a series of Yes or No answers. Complete it carefully to assure proper credit. While the information is not transmitted to the FTB, it can be required if the taxpayer is audited at a later date – therefore the entries should be completed with as much information as the taxpayer can provide. Leaving a field red will not stop the return from being e-filed.

Child and Dependent Care Credit-Refundable (CA 3506)

California has its own form that must be completed when claiming a REFUNDABLE Child and Dependent Care Credit.

- Once form 2441 has been completed, TaxWise adds CA 3506 (with a red !) to the forms tree
- Answer question "Was care provided in California?"
- Part I (optional) asks for Unearned Income, list both source(s) and amount(s) – this includes such items as interest, dividends, unemployment compensation, pensions and annuities, social security, inheritances, court awards, child support, property settlements, etc.
- Part II, the telephone number of the care provider and the location where care was provided is required to e-file the return.

Tax Credit for New Home Purchase

California does have an income tax credit for new home/ first time buyer. A Ne Home buyer certificate is received from the state and the credit is claimed on Line 43. This credit is not refundable.

Child Adoption Credit out-of-scope

Dependent Parent Credit Code 173

This credit is available to a person filing MFS who cannot claim Head of Household status because they have no dependent children that would qualify them as “considered unmarried” but does have a dependent parent(s).

Joint Custody Head of Household Credit Code 170

If, under a joint custody agreement, a child lives with the custodial parent more than one half the year, a credit is available for a non-custodial parent filing Single or MFS who maintains his/her home as the main home for a qualifying child and lives with the child for at least 146 days but less than 219 days and possesses a degree of dissolution, separation, or an agreement entered into before the final decree is issued.

Senior Head of Household Credit Code 163

This credit is available for a person over 65 who qualified as Head of Household for 2009 or 2010, but does not qualify in 2011 because the qualifying individual died in 2009 or 2010.

Contributions

California allows the taxpayer to make contributions to any special funds listed on Form 540 page 3.

FINISHING THE RETURN

UNDERPAYMENT PENALTIES

Calculation of estimated tax penalties is *out-of-scope* for VITA/TCE volunteer program preparers.

- If they owe the IRS more than \$1000 or California more than \$500 – they may be billed for the penalty at a later date.
- Inform the Taxpayer of Penalty
 - When the 2210 shows red on the tree, check the calculated penalty on Form 1040 Page 2 Line 77
 - Inform the client what penalty they may expect.
 - Advise them that we are taking the penalty off the return and letting the IRS calculate the penalty as the penalty may be waived, if small, or may differ depending on when the tax is paid.

Clear Federal Penalty

This may not be necessary if the defaults are set to zero the penalty.

- If Form 2210 appears on the TaxWise tree with a red “!” in front of it, TaxWise has assessed a federal penalty.

Do NOT simply go into form 1040 and delete the penalty. This will cause a transmission reject, even if the amount is as small as \$1.00.

- Open Form 2210 and DO ONLY THE FOLLOWING, nothing else
- Enter a value of \$1 (or 0 and CTRL-SPACE BAR) on Line 8 (last year’s total tax liability) – DON’T do anything else. The remaining red fields will correct themselves

Clear CA Penalty

If form CA5805 appears on the TaxWise tree with a red “!” in front of it, TaxWise has assessed a CA penalty.

Do NOT simply go into form 540 and delete the penalty. This will cause a transmission reject, even if the amount is as small as \$1.00.

- Open Form CA5805 and DO ONLY THE FOLLOWING, nothing else

- Enter a value of \$1 (or 0 and CTRL-SPACE BAR) on Line 5 (last year's tax liability) in Part II - DON'T do anything else. The fact that some fields remain red is okay

INJURED SPOUSE CLAIM

If there is a refund due (because of withholding or estimates paid by taxpayer) and that refund will be offset by debts of the spouse that originated before marriage, the taxpayer may request that a Form 8397 be filed with the return. There is no equivalent form for California. Add form 8379 and complete the questions.

DIRECT DEPOSIT

If the taxpayer has a refund, the IRS and/or FTB can deposit it directly into the taxpayer's bank account, which (1) eliminates printing and mailing a check and (2) gets the refund to the taxpayer approximately a week sooner. While the taxpayer is not specifically notified when the refund has been deposited, it will show up on the next bank statement.

- Enter the 9-digit Routing/Transit number (which is always on the left side of the MICR encoded line) and the account number. Never use information from a Deposit slip and never take numbers over the phone. Include hyphens but omit spaces and special symbols. DO NOT enter the check (sequence) number, which will match the check number on the upper right corner of the check and may appear either before or after the account number
- If the taxpayer selected direct deposit on the previous year's return, specifically ask if they want to use the same account (the account information does not pro-forma) – don't assume!
- The bank account information must be entered in TWO places for verification
 1. Near the bottom of the MAIN INFO form above the Practitioner PIN and
 2. Near the bottom of Form 1040, Page 2. The information must match. If it does NOT, you get an error when running diagnostics (but not when it is entered)
- If the CA refund is also to be direct deposited, form CA 540, Page 3 must have the appropriate box checked to have the refund deposited in the same account as the Federal refund (it may be checked by default). Do not enter bank account info on the CA form.
- If there is no federal refund but there is a California refund or if the CA refund is to go to a different account, check the second box on page 3 of the 540. Account 1 bank information below the check boxes will now turn red. When you enter the Bank information another set of boxes further down will turn red and must have verification entries. Do not enter the bank information on the Main Info, 1040, or anyplace that is not red..

The diagram shows a check with the following details and annotations:

- Payee:** John Doe, Mary Doe, 1234 Main Street, Anytown, CA 99999
- Amount:** \$ 1234 DOLLARS
- Bank:** ANYTOWN BANK, Anytown, CA 99999
- Routing number:** 250250025 (circled and labeled "Routing number")
- Account number:** 202020 (circled and labeled "Account number")
- Check number:** 1234 (circled and labeled "Do not include the check number")
- MICR line:** I 250250025 I 202020 1234
- Other markings:** "19" above the amount, "1234" above the MICR line, and "15-0000/0000" above the MICR line.

- Federal refunds can be split among three accounts, in which case complete form 8888 and leave the information blank on the MAIN INFO and 1040 page 2.
 - For Federal refunds, the client can now request a portion of their refund to buy up to \$5,000 in U.S. Series I Savings Bonds
 - The amount requested (Line 4) must be a multiple of \$50 and the bonds will be issued in the name of both taxpayers if this is a joint return
 - Use Form 8888 for deposit of all or part of the refund to Savings Bonds.
 - Taxpayer can buy bonds for themselves, joint with others or someone else and may designate beneficiaries.
- Client can contact Treasury Retail Securities at 1-800-245-2804 to check status of their bonds.
- CA refunds can be split between two accounts, enter the information on page 3 of the CA 540

DIRECT DEBIT-WITHDRAWAL OF TAX DUE

If the taxpayer has a Federal balance due, and requests direct withdrawal from his bank account, proceed as follows:

The bank account information must be entered near the bottom of the MAIN INFO form above the Practitioner PIN.

On 1040 page 2 just below “Amount you Owe” there is an “Electronic filing only” section where you must check the Yes box to have the funds automatically withdrawn. A form “ACH 1040/ES” is added to the tree. For Direct Debit, you enter the bank account information for verification on ACH 1040/ES, not on 1040 page 2.

Open the ACH 1040 E/S that is now on the Tree

This form instructs the IRS to WITHDRAW funds from the taxpayer’s bank account for a balance due on the return. Check that this is for an Income tax Balance Due

- Enter the amount the client wants debited.
- Enter the bank account information
- Specify the withdrawal date. They can specify April 17th as the withdrawal date. However if they might be subject to a penalty because of the amount they owe, you should suggest immediate payment to reduce penalties.

California FTB – Near the bottom of Form 540 Pg 3 select the first “Electronic Filing Only” “If you want your balance due withdrawn”

- Enter the date the taxpayer wants the funds withdrawn
- Enter the amount of funds to withdraw.
- Enter the bank account information for this withdrawal. Required even if the same account as federal.
- Re-enter the bank account information in the following section for verification of the account numbers.

RUNNING DIAGNOSTICS

“GET THE RED OUT”

- Check the flags to the left of each form in the “Tree”
 - A blue check mark indicates that this form is complete
 - A red exclamation point indicates that this form is not yet complete
 - Unused forms will not have a flag (e.g. neither red or blue)
- Open each form flagged with a red exclamation point
- Use Ctl-E to get to the red field
- Make/correct entries for all required fields, or F3 or CTRL-Spacebar to verify or confirm zero entry. Do not use F3 or CTRL-Spacebar to solve problems.
- Repeat until no forms (except renters credit) are flagged with a red exclamation point (remember to scroll down to check the entire forms list) – only now are you ready to run diagnostics

Run Diagnostics

- First, set the “Return Stage” to indicate the status of the return.
 - “Return Stage is set by going to “Refund Monitor,” Clicking “Check Return Status,” and choosing the correct item under “Return Stage”
- Click on the “Run Diagnostics” icon on the Toolbar
- TaxWise does a complete review of the return and displays a list of possible inconsistencies, electronic filing errors and summary information for both the federal return and the state return
- Any warning or error listed in the diagnostics screen should be carefully examined and corrections made as applicable
- Forms needing correction after the diagnostics check is completed are marked in red – you can access the field on the form which is in error by double-clicking on the error message in the diagnostics screen. This does not work for State errors.
- Scroll completely through the diagnostics screen, you can directly access the form/entry in question by clicking on the red comment in the diagnostics screen
- Note that “overrides” done within the context of TaxWise options (such as “changing the name & address” or “overriding amounts in boxes 3, 4 & 5” on the W-2) will appear in the diagnostics
- There will be red entries under “Estimated entries” because of the forms that are loaded on the Tree by default and not used. These entries are OK and do not need correction.
- After all corrections have been made, click on the “Refresh” icon to re-run the diagnostics
- When no electronic filing errors are detected, TaxWise will tell you that the return is eligible for e-filing
- A return with no income cannot be e-filed (e.g. social Security only). However, if the taxpayer qualifies for a refundable tax credit, enter \$1 interest to allow e-filing.
- Click on the “E-file” button. .

Creation of the e-file assures that the DCN (Declaration Control Number)/Submission ID assigned to the return by TaxWise will print on the 8879's.

CREATE E-FILES

Skip this step if the returns are being paper filed

- This should be done EVERY time you run diagnostics (or view a completed return), it updates the e-files each time
- Click on the “E-File” at the bottom of the diagnostics window (will only appear when diagnostics has successfully run)
- If there are “Validation errors” these must be corrected so that e-files may be created. Validation errors are usually caused by illegal Punctuation (&,/,), extra spaces, or unused forms.
- There should be check marks to create Federal and Stand-alone state (unless no state return was prepared), press Enter, which will close the e-file screen and create the e-files.
- Click on Close to close the diagnostics screen.

If a return is changed for any reason after an e-file is created, TaxWise Online will automatically delete the e-file(s). Therefore before exiting any re-opened return, you must re-run diagnostics and re-create the e-file(s) – if there is no need to create the e-file, the “Create E-file” button will not appear.

RETURN STAGES

- Setting return stages is a very important, and often overlooked, step in the return process. Setting the correct Return Stage lets the ERO know the status of the return, consequently making his/her transmitting job easier and more accurate. The need to enter the Return Stage is described in other portions of this document at the point the Return Stage should be set. The counselor should ALWAYS set the Return Stage when finishing the return and the Quality Reviewer should check that it was set as part of the review of the return. Return stage entries are set by State, District, or Site, depending on state policies. Thus, any reference to Return Stage entries in this document may not agree with the ones at your site. It should be obvious which one to use – if not, check with your site manager.
- Return Stages could be: E-file, Federal and State; E-file, Federal only; Paper, Finished; Paper, Unfinished, Amended, etc.
- The Return Stage can be set in two ways
 - Click on “Return Summary” on the Tool Bar
 - Under “E-file status” click the down-arrow next to “Return Stage” and set the appropriate value
 - With the return closed and viewing the “Active Returns” (or any other return View), set the Return Stage by clicking the down-arrow under the Stage column on the row with the taxpayers name

REVIEW FEDERAL AND STATE RETURNS WITH TAXPAYER

You can do this review either from the laptop screen OR by printing the returns, decide which works best for you and the taxpayer(s); for more complex returns (e.g. having many documents) it is often easier to work from a printed copy

- Bring the return up for review:
 - Click the printer icon
 - Select “Print Return” on Toolbar
 - An Adobe .pdf file will be previewed. You can either print and/or save the return. Ordinarily, you will not want to save a client’s return.
- Go over the entries on Form 1040 with the taxpayer
 - Do the entries agree with the SS cards, W-2s, 1099-Rs, tax withheld, etc?
 - Does the taxpayer understand the return? If prior year return is available, you may review differences with Taxpayer (Summary screen may also be used).
 - Does any item seem strange (you don’t understand where it came from)?
 - Did the taxpayer get all the credits that you expected them to get?
- Review the entries on the CA 540 return with the taxpayer. Review TW form CA CA
- When satisfied that the returns are in good order, continue

QUALITY REVIEW

Every return prepared at a Tax-Aide site must be Quality Reviewed by another counselor who must complete the Quality Review sections of the Intake and Interview sheet (**given to Taxpayer**) during this process and enter their initials in Preparer Use 14 at the bottom of the Main Info sheet. The quality review counselor examines the supporting documents supplied by the taxpayer and compares them with the entries on the 1040 and 540 forms to check for the accuracy and completeness of data entry. The taxpayer(s) should be present to observe the quality review and answer any questions.

A computer-generated return will not have the mathematical or copying errors that are potential problems for a hand-prepared paper return. But input errors can and do occur, and must be corrected before the taxpayer(s) leave the site.

Quality Review can be handled in several ways:

- If there are multiple W-2's or 1099-R's it is recommended that the W-2 or 1099-R worksheet be printed for quality review of these input documents. Printing any W-2 or 1099-R generates a one page summary of these documents.
- Quality Review using the same computer on which the return was prepared:
 - The return is reviewed by looking at the 1040 screen and any other screens necessary.
 - All entries are reviewed on all forms used
- Quality Review using a separate computer and a backup copy of the return or a networked computer
- Quality Review using a printed copy of the return is not recommended
- When the Quality Review is finished, the Quality Reviewer should check that the Return Stage was properly set – if not set, or set to the wrong status, the Reviewer should set the correct status.

DRAFT

FINAL STEPS IN TAX RETURN PREPARATION

ESTIMATED TAX PAYMENTS FOR NEXT YEAR

Estimated Federal Tax Payments (ES)

Select 1040ES

Pre-printed IRS payment vouchers are no longer furnished by the IRS if the prior year return is e-filed.

- Clients should not mail a Quarterly estimate with the 1040V or tax return.
- The Taxpayers Address used on the vouchers does not have to be the same as the address on the tax return. There is a box on Voucher 1 that allows you to change the name or address.

There are two ways to compute estimated taxes:

OPTION 1

- You can estimate taxes at a level to avoid underpayment penalty (90, 100 or 110% of the current year's liability – refer to Pub. 17), to pay the total amount due, or to generate a refund.
- If no substantial change in income is expected for the following year, look at this year's return and discuss the option of paying more or less based on the current year's result, OR
- On the "estimate desired" line at the bottom of the first section of Form 1040 ES, enter the total estimated tax amount (rounded to the next multiple of \$20) for the next year – the amount will be divided into four equal parts and carried forward to the vouchers

OPTION 2

- If a substantial change in income, filing status, dependents, or credits is expected, fill in the "non-computed" fields of form 1040ES
- Scroll down the form to fill in any other additional income and credit information, based on this year's return and additional information from the client
- TaxWise will compute the appropriate estimated payments and enter the amount on the vouchers
- Note that computed tax does not subtract any withholding from any source, therefore you may need to adjust the TaxWise estimate accordingly

Application of refunds to next years estimated taxes

A refund can be applied to next year's estimates. This is not recommended for several reasons. If the prior year return is not brought in or not pro-forma, the client may not remember the amount applied. If there is any adjustment on the return, the amount shown as applied may not have been applied and the client may not tell you of this change. However if the client insists, proceed as follows:

- On 1040ES before the first voucher is a section that shows the amount of the refund, followed by boxes that allow you to credit "All" or "1st Installment Only".
- Checking ALL will apply all of the refund to the estimates starting with the first until used up. If the refund is more than the total estimates, the balance of the refund will be refunded and this will be shown on page 2 of the 1040. Checking ALL and asking for equal division will reduce each estimate payment by the same amount.
- Checking the "1st installment only" box will apply the refund only to the first installment and will refund any amount not used for the first installment.
- If a client specifies a partial amount of their refund to be applied that does not match or exceed their first installment, the amount of refund shown on the 1040ES must be overridden and the partial amount entered. Your site coordinator may have to accomplish the override.

Payment of Estimates with automatic withdrawal

Estimated payments can be automatically withdrawn from the Taxpayers bank account by using ACH 1040-ES. Each Estimate requires a separate form; however the first estimate is combined on the form with the balance due ACH payment. This can be a big advantage for taxpayers who may forget their obligation to pay estimates on time. However, they should be reminded that they must assure the funds are in their account on the designated withdrawal date.

Printing Blank Estimate forms

The TaxWise program requires an entry on 1040ES worksheet, which can then be removed before it will automatically print the vouchers with names and addresses. If the client wants blank vouchers, you must select each of the vouchers individually and “Print Form”

Estimated CA Tax Payments (CA 540ES Wkt)

- CA estimate requirements are slightly different from the IRS requirements, but are generally close enough that the same procedures can be used to estimate the tax.
- Open Form CA 540ES WKT found at the bottom of the tree and use the same processes for calculating the estimated tax as used for the federal tax
- California Estimates are distributed 30% to first quarter, 40% to second, none to third and 30% to fourth quarter

California does NOT provide pre-printed vouchers for estimated payments. You must print four individual pages in TaxWise if printing the forms, only, or generate the PDF for the return and print only the estimated tax payment voucher pages.

PRINTING RETURNS

Click on the “PRINT RETURN” button on the Toolbar

- This assumes that the print packets are setup in accordance with the CA2 TC manual, if not, your TC will have to provide printing instructions):
- An Adobe .pdf file will be created and can be scrolled through to see what will print, then saved or printed.

Printing Individual Forms

Print Packets, as set up by your ERO, print only those forms which have been used on the tax return. Occasionally this can prevent a needed form from printing, as in the following situations:

- Itemized deductions apply for state, but not for federal.
 - TaxWise applies standard deduction to federal, and does not print Schedule A
 - Schedule A is needed for state return
- Itemized interest and/or dividends on Schedule B are less than \$1500
 - TaxWise recognizes that Schedule B is not required, and does not print it
 - You still may want to give the client a copy for his records
- Individual forms for the tax return can be printed separately
 - If return is not already open, open it and go to desired form
 - Use the “Print Form” button on the menu
 - Enter number of copies to be printed and click “Print”
- Printing any W-2 or 1099-R generates a one page summary of these documents, which is very useful during Quality Review when there are multiple documents.
- Estimates are printed with the return, however they may be printed after the return is finished and printed.

Printing blank forms

Blank forms may be requested by a taxpayer who is coming to the site only for advice and/or assistance with a return he or she has manually prepared. This can be done by going to the TWO Home page, clicking the “IRS Forms and Publications” link, looking up the appropriate form, then printing the requested number of copies.

Suppressing Federal or California Return

In some cases you will not be creating both Federal and CA returns (e.g. they don’t need or want to file a CA return, etc.). In these cases you must:

- To suppress the CA return, check the box and remove the “CA” in the State Information section of the MAIN INFO form
- To suppress the Federal return (not recommended), change to a paper return. The ERO must be alerted that one of the returns is missing on purpose.

Client Letter

TaxWise Online client letters are printed separately from the return by clicking on the “Client Letters” tab on the toolbar after you print the return:

- Your ERO must create the Client Letters and give instructions on the use of them
- Some sites may not use the Client Letter feature, but have an alternate method of printing Client Letters. You will be instructed on this at your site.

SIGNATURES AND DISTRIBUTION OF COPIES

The taxpayer's signature and spouse's signature are required on all tax returns – this is accomplished in different ways depending on how the return is filed.

If a return is MFJ and only one taxpayer is present, use the Practitioner PIN method and instruct them that they are both to sign the 8879, Federal and State, and keep it with their records. A married taxpayer can sign for a spouse where injury or death prevents signing; otherwise they must have a power of attorney (POA).

Electronic Returns – with Practitioner PIN (Electronic Signature)

Both the federal and CA returns use electronic signatures.

- The Self Select and Practitioner PIN section on the MAIN INFO form should be complete.
- One IRS Form 8879 and one CA 8879 will be generated. The taxpayers must sign both.
- Place the signed IRS Form 8879 and CA 8879 at the back of the client's printed papers.

Electronic Returns – with Self-Select PIN (Electronic Signature)

This method is not used by AARP TaxAide.

Deceased person-signature requirements

- A surviving spouse will sign the return and add “as surviving spouse” after their name.
- A personal representative or executor will sign their own name with their title. POA required.
- A person other than Surviving spouse or personal representative will sign their own name. POA required
 - Form 1310 Refund due a deceased taxpayer will be required if the return is filed by other than a surviving spouse

Power of Attorney (POA)

If an agent is signing the return for a taxpayer, a power of attorney (POA) must be filed.

When a Power-of-attorney is used to sign the taxpayer's return, the POA must be attached to Form 8453, Transmittal for IRS e-file, and sent to the appropriate IRS Processing Center in Austin, TX-your ERO should have prepaid mailing labels.

To load and print the Form 8453 in TaxWise the preparer **must add Form 2848**, Power of Attorney and Declaration of Representative, **and check the box which states "check here if using this form."** This will automatically load Form 8453 and mark the box beside, "Form 2848, Power of Attorney and Declaration of Representative, (only for electronic return signed by an agent)". Shred the Form 2848 when it prints with the return. The POA provided by the taxpayer's agent will be attached to the Form 8453.

A Power of Attorney expires when a person dies.

Attachments (8453)

Some returns require attachments (listed in the “Self Select and Practitioner PIN” section of the MAIN INFO form and on Form 8453). One copy of the 8453 and attachments shall be sent to the ERO who will send it to the IRS processing center in Austin, TX.

Attachments –PDF forms

The software for 2011 will allow attachment of pdf forms used to explain or provide additional information. A return using such forms would be out-of-scope for AARP Tax-Aide.

PAPER RETURNS

- When paper returns are required because the return cannot be e-filed, verify that the following has been done to prevent generating e-files (this assumes your ERO has used the history lists mentioned in this document – if not, the history list wording may appear differently):
 - “paper” is checked under Type of Return on the MAIN INFO form, for the federal return
 - “no” is checked in response to the question “do you want to electronically file this return” on page 3 of the CA 540, for the state return
 - Change Return Stage to “Paper” by clicking on the “Check Return Status” link in the “Refund Monitor” and then clicking on “Return Stage” under the “E-file Status” group. Then select the “Paper” line to inform ERO of status.
 - Click the “Print Return” icon on the Toolbar
- Note: Return Stages are set by districts and the values they use may be different than the ones specified here. Check with your site manager if the Return Stage choice isn’t obvious.
- The **taxpayer(s)** must sign the second page of the IRS 1040 AND the CA 540 returns being mailed. Attach any W-2s and W-2G’s or 1099’Rs with withholding to the first page of return and instruct the client to mail the returns together with any payment vouchers and checks. Mailing Addresses are shown at the beginning of this manual.
- Returns filed on paper should be recorded on the ERO log and saved at the end of the shift, as the taxpayer(s) may return to request an amendment or return for service next year.

EXITING A RETURN BEFORE COMPLETION

- Should you need to exit a return before completion of the return:
 - Before closing, change the “return stage” to indicate the reason why the return is not complete (optional by district). Districts may set up their Return Stages differently but the stage entry could look like: “Need additional information,” etc.
 - If e-files have been created, delete the e-file.
 - Make a change to the return, e.g., add a letter to the last name
 - Close the return
 - Open the return and remove the letter you added
 - Close the return
- Enter an explanation of what is required to finish the return at the bottom of the Preparer’s Use Fields Worksheet.
- Be sure to accurately explain the status of this return on your ERO log

EDITING A PREVIOUSLY CREATED UNFINISHED RETURN

- On the TaxWise Online Toolbar, click on “Open Return”.
- Enter the SSN of the file you need.
- TaxWise will load the return.
- You may now move around in the return, making changes as needed.
- Reset the “Return Stage” to indicate the new status

Always run diagnostics and create new e-file(s) after making any changes, or even reviewing a return.

Unable to pay/Late filing

Returns prepared by Tax-Aide will always be filed by April 15th. Prepare proper vouchers for payment and instruct the taxpayer to pay what they can on each and send it in by the due date of April 15th. The IRS and FTB will contact them with the options for paying the balance. .

- Refer to IRS Pub 594 – The IRS Collection Process

PAY LATE

If payment can be made in several months, pay as much as possible by April 15th. The Taxpayer will receive a notice of Tax due about May 15th, and a tracer around June 15th and again around July 15th, followed by a Notice of the Account being placed in Collection Status. The taxpayer will owe Interest at the Federal rate plus a late penalty of 0.5% per month after the due date. The Taxpayer may call the IRS at the number shown on the Notice of Tax Due and may request a “Full Pay within 60 or 120 day Agreement”. This will stop the tracers and the placement of the Account in Collection Status.

PAY BY CREDIT/DEBIT CARD

The volunteer Reference Guide-Pub 4012 Section 13-7 has the names and phone numbers of the companies that handle payment of taxes by credit/debit card.

PAY BY INSTALLMENT AGREEMENT FORM 9465

- Should be considered only if Taxpayer cannot pay their balance due within 4 months. If the balance due can be paid within 4 months, do not request installment payments and print out enough voucher forms as the Taxpayer may need. Be sure to advise of the penalties and interest that will be due on unpaid amounts.
- There is a one time set-up fee of \$105, which can be reduced to \$52 by agreeing to pay by direct debit or reduced to \$43 by filing form 13844 (not available on TW).
- They will owe interest and a late-payment penalty of 0.25% of the balance due each month.
- Form 9465, Installment Agreement Request, (which is included in the TaxWise forms) must be completed. The return can be efiled with this form.
- The taxpayer can choose the monthly due date and payment amount, and may arrange to have the funds withdrawn directly from a bank account.
- For taxpayers owing less than \$25,000 and agreeing to pay it off within 5 years, the IRS has a streamlined approval process – the taxpayer can check the IRS web site to see if they qualify.
- While on an installment agreement, the taxpayer must file and pay future taxes on time.

CALIFORNIA

- CA Form 3567 is used to request installment payments. No filing fee applies.

LATE FILING

If no tax was due or the taxpayer is due a refund, there is no penalty as long as the return is filed within three years of the due date.

Penalties if tax is owed:

- The interest on the amount past due varies quarterly and as of September 2009 is 4% per month, compounded daily
- The late filing penalty is 5% per month of the unpaid tax up to a maximum penalty of 25% of the amount due. However, if the return is filed more than 60 days late: the minimum penalty is \$100 or the full amount of the tax due, whichever is less

REFUNDS

The **deadline for claiming refunds** from the IRS is three years from the date the return was due (e.g. the last day for claiming a refund on a 2008 return will be April 16, 2012) and for CA it is four years from the due date of the return.

FAILURE TO FILE

Unlike the three-year deadline for refunds, there is no limit on how far back the IRS can go in assessing taxes for non-filed returns. Repeated failures to file might even result in criminal charges, which carry a maximum fine of \$25,000 and one year in prison for each count if convicted.

END-OF-SHIFT

ASSEMBLE THE ERO ENVELOPE

- Your completed ERO Log
- Form 8453 and attachments, if applicable

AARP SITE SIGN-IN SHEET

Check that everyone you have seen is properly recorded (cross check with computer). Turn in the information to your site coordinator.

COMPUTER SHUTDOWN PROCEDURE

See TaxWise Procedures on page 5

OTHER RETURNS

PRIOR YEAR RETURNS

You must have been certified by TaxAide to do prior year tax returns

- When doing multiple past year returns for a taxpayer, start with the oldest and work forward, using “carry forward” to speed the process
- Prior year returns CANNOT be e-filed, so “Paper” return should be selected in both Federal and State – your ERO should have defaulted this fields, but you should check.
- The prior year TWO is accessed by appending the two digit year to the TWO URL, e.g. for 2008, the TWO URL is: twonline.taxwise.com/08. NOTE: You only have access to prior year returns if you did the return in TWO for that year. You can create a new return though.
- Click “New Return” on the Toolbar
- Enter information in the same manner as current year. Note that many non-dollar fields are not required as the return will not be e-filed, for instance you only need dollar amounts on the W-2s
- After completing a prior year return, remember to log out of the prior year TaxWise Online site and open the current year TWO site before continuing with other new returns.
- The IRS offices will assist taxpayers with preparation of prior year returns.
- Forms and instructions for prior years can be downloaded from the IRS web site.

AMENDED RETURNS

You must have been certified by TaxAide to do prior year tax returns

- Amended returns CANNOT be e-filed
- When amending a Federal return, check to see if the California return also needs to be amended. Both can be easily done at the same time on the computer. An adjustment letter (CP2000) is not a reason to amend a return. However if the federal adjustment proposed is correct and is accepted, a California amended return may be necessary to agree with the adjusted 1040
- There will be instances when the Federal return rejects and the necessary correction(s) change the state return amounts. If the state return has already been accepted, the ERO will have to generate a state amendment and mail it to the taxpayer(s) for signature and submission
- If amending a prior year return, be sure you are working in the software for the applicable year
- If you do not already have a copy of the taxpayer’s original return on your computer, it will be necessary to complete a tax return and make sure the Federal and State returns agree with the original. Enter information from the original return on appropriate supporting form screens using information from the original return. However, since the amended return cannot be e-filed, employer or payer names usually do not need to be entered. Do not enter the original return numbers directly on the 1040 (or 1040X prior to 2009) screen, as some items (such as taxable social security, or allowable medical deductions) may change with the adjustment in income. If you do have a copy of the original return, open that return.
- If amending a current year return, make a note at the bottom of the MAIN INFO sheet that an amendment was filed. Change the type of filing from e-file to Paper on both the federal and CA. Change the “Return Stage” to “Ready to file.” Local instructions may require you to further change the “Return Stage” to indicate that it is a Paper or Amended return.

Before Making Changes

FEDERAL RETURN

- Restore the return or enter the original information to recreate the return. When recreating an original return, enter only the basic information. e.g., enter all the interest as a lump sum on the interest statement with no description. Enter only wages and withholding on W-2. When taking these shortcuts, carefully review the return on TaxWise with both the Federal and California

return. Do not make SS, Sch A, or credit entries directly on the 1040 as these may change when income changes.

- Open Form 1040X
- Check the box on the first line of the 1040X to override the original refund or balance due before making any changes to any forms.
- For 2008 and earlier, the box is in the section with the income numbers

CALIFORNIA RETURN

- Restore the return or enter the original information to recreate the return
- Open Form CA 540X
- Check the red box above Line 1a State wages, to override all original entries in Column A to “freeze” the return

Make Required Changes

Go to the Federal return, open each form that requires revision, and make the necessary changes, which will update both the federal and CA returns:

- DO NOT make changes directly on the 1040X or 540X., however in some cases it may be necessary to manually make adjustments to state income or deductions on TW form CA CA
- Once all changes are completed and both revised returns are correct:
 - Open Form 1040X, and complete any remaining red fields on Pages 1 and 2.
 - Open Form 540X, and complete any remaining red fields on Pages 1 and 2.
- Explain each change separately and in detail
 - item being changed.
 - amount previously reported and corrected amount.
 - Reason change was needed. Include in explanation the documents that are attached supporting the change.

Print the amended return(s)

Click the “Print Return” icon on the Toolbar. If your ERO set up the program properly, two copies of the 1040X and 540X will print. If not, then you will have to manually print the second copies of these forms. Attach all supporting forms and schedules for items changed (make sure all info on the revised schedule including payer names is shown).

The taxpayer(s) must sign and mail one copy of the 1040X with all revised supporting forms and schedules and corrected W-2’s and 1099’s to IRS in Fresno. Note: If the amendment is the result of a letter or notice from the IRS, send the amendment as well as the letter response to the address shown on the letter.

The taxpayer(s) must sign and mail one copy of the 540X together with the revised California tax return including any revised forms or schedules, any changed federal schedules, and documents supporting each change such as corrected W-2’s, 1099’s, any changed or new schedule; the other copy of the 1040X and 540X and the return as amended should be retained for their records.

REQUEST FOR EXTENSION OF TIME TO FILE

- An automatic six-month extension of time to file is available for most taxpayers by submitting form 4868, which can be done as follows:
 - Filing form 4868 by phone between February 1 and April 17 if a payment is due.
 - e-filing form 4868 (if approved by ERO)
 - Mailing a paper form 4868 with a check for any tax due.
- California grants an automatic extension of time to file as long as the tax is paid in full by the due date.
- The key point that the taxpayer(s) must understand is that any tax liability (albeit estimated) must be paid to both the IRS and CA by April 17th, otherwise interest and/or a penalty will accrue.
- Start the return as a paper return, completing as much as possible. Use “Forms List” to load form 4868 and complete it per the instructions on the form (you MUST check the box at the top of the form). Print the Form 4868 and have client mail the form with a check for amount due. (While

TaxWise Online does allow e-filing of Form 4868, special procedures are required for e-filing which must be coordinated with and approved by your ERO. Your local leaders can teach this process if they use it). At some later date the taxpayer(s) will need to submit a final return – which will almost always be after April 17th when Tax-Aide services are no longer available.

- There is no extension form for California. There is an automatic 6 month extension, but balance due must be paid by April 17th by mailing Form FTB 3519 with a check or online by a credit card.
- Inform the client that the return must be complete and filed by October 15th. Do not print copies of the return as it is not complete, has not been filed, and may lead the taxpayer to believe that the return was filed by AARP Tax-Aide

REPORTING & SITE LOGS

AARP must track counseling activity at each site, as this is the basis for the IRS grant. In addition, the site ERO needs to track e-file activity. To accomplish this, sites use various “logs”, which may include:

- Site Sign-in: to keep track of taxpayers in order to determine the sequence of service
- AARP Site Sign-in Sheet: to track counseling services provided , which is summarized by the Local Coordinator and reported periodically to the District Coordinator
- ERO Log: information about returns to be e-filed, which is used by the site’s ERO to control the e-file processing

Sites can develop their own formats as long as they collect the following required elements of client activity:

1. Paper filed current year returns
2. Prior Year Federal Returns prepared
3. Amended Federal Returns prepared
4. State Only Returns prepared.
5. Count of “Q&A” services (when no return was prepared)

The site Local Coordinator keeps the above statistics and provides them to the District Coordinator at specific intervals.

Unable to pay/Late filing

Returns prepared by Tax-Aide will always be filed by April 17th. Prepare proper vouchers for payment and instruct the taxpayer to pay what they can on each and send it in by the due date of April 17th. The IRS and FTB will contact them with the options for paying the balance. .

- Refer to IRS Pub 594 – The IRS Collection Process

PAY LATE

If payment can be made in several months, pay as much as possible by April 17th and the balance with receipt of the IRS notice of Tax Due. The taxpayer will owe Interest at the Federal rate plus a late penalty of 0.5% per month

PAY BY CREDIT/DEBIT CARD

The volunteer Reference Guide-Pub 4012 Section 13-7 has the names and phone numbers of the companies that handle payment of taxes by credit/debit card.

PAY BY INSTALLMENT AGREEMENT FORM 9465

- There is a one-time set-up fee which can be reduced by filing form 13844 and by agreeing to pay by direct debit.
- They will owe interest and a late-payment penalty of 0.25% of the balance due each month.
- Form 9465, Installment Agreement Request, (which is included in the TaxWise forms) must be completed. The return can be e-filed with this form.
- The taxpayer can choose the monthly due date and payment amount, and may arrange to have the funds withdrawn directly from a bank account.
- For taxpayers owning less than \$25,000 and agreeing to pay it off within 5 years, the IRS has a streamlined approval process – the taxpayer can check the IRS web site to see if they qualify.
- While on an installment agreement, the taxpayer must file and pay future taxes on time.

LATE FILING

If no tax was due or the taxpayer is due a refund, there is no penalty as long as the return is filed within three years of the due date.

Penalties if tax is owed:

- The interest on the amount past due varies quarterly and as of September 2009 is 4% per month, compounded daily
- The late filing penalty is 5% per month of the unpaid tax up to a maximum penalty of 25% of the amount due. However, if the return is filed more than 60 days late: the minimum penalty is \$100 or the full amount of the tax due, whichever is less

REFUNDS

The **deadline for claiming refunds** from the IRS is three years from the date the return was due (e.g. the last day for claiming a refund on a 2008 return will be April 16, 2012) and for CA it is four years from the due date of the return.

FAILURE TO FILE

Unlike the three-year deadline for refunds, there is no limit on how far back the IRS can go in assessing taxes for non-filed returns. Repeated failures to file might even result in criminal charges, which carry a maximum fine of \$25,000 and one year in prison for each count if convicted.

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN)

Federal law requires individuals with U.S. income, regardless of immigration status, to pay applicable U.S. taxes. The ITIN is a nine-digit number (that begins with the number 9 and has a 7 or 8 as the fourth digit) that was created **for use on tax returns** for those taxpayers who do not currently qualify for (or have) a Social Security Number.

An ITIN will ONLY be issued to individuals who have a valid filing requirement, regardless of immigration status. The ITIN does NOT:

- Authorize work in the US
- Provide eligibility for Social Security benefits OR the Earned Income Tax Credit
- Provide valid identification outside the tax system
- Establish immigration status

REFERENCE: IRS publications 17 and 1915

Taxpayer does NOT have valid SSN or ITIN

- Start the return from the **file menu**

- Select “Apply for ITIN”. A dummy SSN (e.g. ITI-N0-0001) will be assigned but will not print on the return.
- Prepare the tax return
- Taxpayer will complete W7 Taxpayer will submit the paper return together with the W7 and required documentation to the following address: (and not to any other IRS office):
 IRS, ITIN Operations
 PO Box 149342
 Austin, TX 78714-9342
- Taxpayer may submit the W7 and required documentation to an IRS Acceptance Agent authorized to review the information. Local Acceptance Agents can be located on www.irs.gov under Acceptance Agent Program.
- State return should be held by taxpayer until they receive the Federal ITIN which will be written in on the State return

Taxpayer has valid ITIN (from prior years)

- Check documents to make sure name is correct (SSN will be incorrect)
- Create the return using the ITIN as appropriate for the primary or secondary SSN
- On the documents with incorrect SSN, enter the incorrect SSN which appears on the paper W-2 issued by the employer.
- E-file the return (If documents have an incorrect name, submit as paper return)

Taxpayer now has a valid SSN (previously filed using an ITIN)

- Prepare return
- E-file using the SSN

Amend the prior year(s) returns

- Taxpayer subsequently obtains valid SSN after submitting one or more federal returns using an ITIN
- Prior year ITIN return could not claim EIC
- Amend the prior year return
- Reason should state “Previous return filed with ITIN _____” as well as the addition of EIC, or other change.

Form W-7 (*out-of-scope*) is used to apply for an ITIN. For specific instructions, the applicant(s) should consult the instructions accompanying the W-7. A blank W-7 can be printed from TaxWise – find the form on Forms List (not Tree) and use the Print Form button. The application can be made by mail or at any IRS Assistance Center or Acceptance Agent. It generally takes 4 to 6 weeks to receive the ITIN. In most cases **the applicant must provide the original, completed tax return(s) for which the ITIN is being requested as well as two of the following with the W-7:**

Valid Passport (No other Document required)	U.S. Military Identification Card
National Identification Card	Foreign Military Identification Card
U.S. Drivers License	Visa
Civil Birth Certificate	U.S. Citizenship and Immigration (USCIS) photo ID
Foreign Drivers License	Medical Records (dependent only)
U.S. State Identification Card	School Records (dependents and students only)
Foreign Voters Registration Card	

California returns with ITIN

If an ITIN is being applied for, prepare the State return, but have the client hold the return until the ITIN is received and entered on the return. They should then submit the return as a paper return.

DRAFT

TROUBLESHOOTING AND TIPS FOR TWO

IF TWO “HANGS UP”

Usually, TWO will switch forms and update fields fairly rapidly, though never as fast as TaxWise Desktop. Sometimes, a “Loading form” will be displayed for an extended time – that is commonly referred to as “TWO Hangs Up.” If this condition lasts for more than 15 seconds, following are some procedures to use to recover, in the order they should be used:

- Press the F5 key to reload the form
- Press the “Back” arrow in Internet Explorer
- Close the return and re-open it
- Log out of TWO and log back in
- Close Internet Explorer and re-start it
- Close TWO and re-boot the computer

PRINTING

Printing in TWO is a multi-step procedure. First a PDF file is created, then you must click a link to display it in Adobe Acrobat Reader and finally, you click the print button to send the output to the printer. The generation of the PDF file can be beneficial in certain circumstances.

- Printing a form(s) – you can print a form in TWO by clicking the “Print Form” icon above the Forms Tree. However, you can only print one form at a time and you must go through the list of loaded forms to select the appropriate form and print it. This can be tedious in the case where, for example, you have printed the return and then remembered to add the quarterly estimated tax vouchers. Rather than print the four vouchers one-by-one, you can create the PDF file by clicking Print. Then, find the page numbers of the vouchers and print only those pages, rather than the whole return. This is much faster than printing each form separately.

SAVING

TWO automatically updates and saves the data when you switch forms. However, while you are in a form, the data entered is not saved until you exit the form or return. Thus, if you are spending a long time in a form, e.g., the capital gains worksheet with many entries, it is good practice to frequently click the “Save” icon on the toolbar. That way, if the program should “freeze,” your entries to that point will be saved. This is no different than TaxWise Desktop. Any time the program freezes, you should go back over your last few entries to make sure that the data was saved.

DELETING E-FILES

If you mistakenly create e-files, e.g., for a paper return, etc, you should delete the e-file so the ERO won't have an e-file loaded for which he/she has no paperwork to accompany the return. To delete the e-file, make a temporary change to the return, e.g., add an “a” to the taxpayer's first name. Then close the return – this will erase the e-file. Then, go back into the return and remove the “a” from the first name. Close the return – all e-files will be removed.

RESTORING DELETED RETURNS

Multiple returns can be restored using the “Restore Returns” feature. This can only be done by the Admin user or a user assigned the Admin role.

GLOSSARY

ACK File	Acknowledgment file showing accepted, duplicated or rejected returns.
AGI	Adjusted Gross Income.
AMT	Alternative Minimum Tax
AOTC	American Opportunity Tax Credit (American Recovery and Reinvestment Act of 2009)
CASDI	The amount deducted from normal income to fund the California State Disability Income program, some payments will be made to VPDI instead of CASDI
CCH	Consumers Clearing House- publisher of TaxWise
DC	District Coordinator (The individual responsible for all sites in a district)
DCN	Declaration Control Number (Number assigned to an electronic tax return when it is batched for transmission to the Service Bureau or the IRS. Prints at the top of the 8879. Includes the EFIN in conjunction with identification).
DCR	Declaration Control Report (Report compiled before each transmission of returns.)
EFIN	Electronic Filing Identification Number (A unique number assigned by the IRS to identify each electronic filing site, which is used as the electronic “address” for the site)
EIN	Employer (Tax) Identification Number (The federal ID number for processing employer payroll information.)
ERO	Electronic Return Originator (Counselor who performs the tasks related to electronic filing of returns.)
HRA	Homeowners & Renters Assistance, a State of California program. See section 18.
ITIN	Individual Taxpayer Identification Number. See section 22.
LC	Local Coordinator (The individual responsible for one or more tax preparation sites)
OPM	Office of Personnel Management (the federal agency which pays government pensions)
PAB	Private Activity Bond
RTN	Routing Transit Number. (Nine-digit number assigned by the Federal Reserve to uniquely identify a bank)
SC	State Coordinator (The individual responsible for all districts in the sub state.
SDI	The same as CASDI, see above
SIDN	Site Identification Number (A unique seven digit number starting with “S” assigned to each physical counseling site operated by AARP TaxAide)
Site	A physical Tax-Aide service provider location
SPEC	The IRS Stakeholder Partnerships Education and Communication office
SSN	Social Security Number (Number issued by the Social Security Administration for each individual participating in the Social Security Program.)
TC	District Technology Coordinator
TCS	State Technology Coordinator
UD	Unemployment Disability insurance-deductible as a state tax
UI	Unemployment Insurance-deductible as a state tax
UTS	Universal Tax Systems (The branch of CCH that produces the TaxWise software.)
VI	Voluntary insurance-NOT deductible as a state tax
VP	Voluntary Payment-NOT deductible as a state tax
VPDI	Voluntary Payment Disability Insurance-NOT deductible as a state tax

SALES TAX TABLES

2010

CA 2010 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

8.25%/7.25%- avg7.75%

Income		Number of exemptions					
At least	But less than	1	2	3	4	5	Over 5
\$0	\$20,000	326	379	414	441	464	495
20,000	30,000	523	605	660	702	737	786
30,000	40,000	624	721	785	835	876	934
40,000	50,000	710	820	892	949	995	1174
50,000	60,000	788	908	989	1051	1102	1277
60,000	70,000	859	989	1076	1144	1199	1374
70,000	80,000	926	1066	1159	1231	1291	1464
80,000	90,000	988	1136	1236	1312	1376	1549
90,000	100,000	1047	1204	1308	1389	1456	1662
100,000	120,000	1125	1292	1404	1490	1562	1815
120,000	140,000	1231	1413	1535	1629	1706	1949
140,000	160,000	1324	1519	1649	1750	1833	2082
160,000	180,000	1417	1625	1763	1870	1959	2203
180,000	200,000	1501	1720	1866	1979	2072	2064
200,000	No Limit	1921	219	2378	2520	2637	2800

2010

This table is Only for 2010 tax returns

2009

CA 2009 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

8.0034%(use 8.25% for calculating local sales tax

Income		Number of exemptions					
At least	But less than	1	2	3	4	5	Over 5
\$0	\$20,000	285	309	323	334	343	355
20,000	30,000	482	519	542	559	573	591
30,000	40,000	589	633	660	681	697	719
40,000	50,000	686	736	767	790	808	833
50,000	60,000	776	831	865	891	911	939
60,000	70,000	862	921	958	986	1008	1038
70,000	80,000	945	1009	1049	1078	1102	1134
80,000	90,000	1025	1092	1135	1166	1191	1226
90,000	100,000	1102	1174	1218	1251	1278	1314
100,000	120,000	1208	1284	1332	1367	1395	1434
120,000	140,000	1358	1441	1493	1531	1562	1604
140,000	160,000	1496	1584	1639	1680	1713	1758
160,000	180,000	1638	1731	1790	1834	1869	1916
180,000	200,000	1771	1869	1931	1977	2014	2064
200,000	No Limit	2504	2624	2701	2757	2803	2865

2009

This table is Only for 2009 tax returns. California Pub 540 for 2009 has local and county taxes

2008

CA 2008 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

7.2500%

Income		Number of exemptions					
At least	But less than	1	2	3	4	5	Over 5
\$0	\$20,000	246	280	303	320	334	354
20,000	30,000	423	480	518	547	571	603
30,000	40,000	518	587	633	668	696	736
40,000	50,000	601	681	734	774	806	852
50,000	60,000	678	767	825	870	907	958
60,000	70,000	748	846	910	960	1000	1056
70,000	80,000	815	922	991	1045	1088	1149
80,000	90,000	879	992	1067	1124	1171	1236
90,000	100,000	939	1060	1140	1201	1251	1320
100,000	120,000	1019	1150	1236	1302	1356	1430
120,000	140,000	1131	1275	1370	1443	1502	1584
140,000	160,000	1230	1386	1488	1567	1631	1720
160,000	180,000	1330	1497	1608	1692	1761	1856
180,000	200,000	1420	1599	1716	1805	1879	1980
200,000	No Limit	1885	2117	2269	2385	2481	2613

2008

This table is Only for 2008 tax returns. California Pub 540 for 2008 has local and county taxes

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