

AARP FOUNDATION TAX-AIDE
CALIFORNIA
COUNSELOR REFERENCE MANUAL
(CRM)
For TaxSlayer Online
TAX YEAR 2016



The printed CRM can be ordered from the Franchise Tax Board
The electronic CRM can be found at Tax-Aide for CA-2: aarpc2.org/forum
Corrections? Comments? Suggestions? Send email to jebroughton (at) gmail.com

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Where to Mail Returns and Payments

What	Internal Revenue Service	CA Franchise Tax Board
Electronic filing with balance due (mail the payment and payment voucher ONLY)	Internal Revenue Service P.O. Box 7704 San Francisco, CA 94120-7704 (Form 10f40-V)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (Form 3582)
Paper return with balance due (mail the signed return and the payment)	Internal Revenue Service P.O. Box 7704 San Francisco, CA 94120-7704 (1040 with 1040-V and payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0001 (CA Form 540 with payment)
Paper return with nothing due or refund (mail the signed return)	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0002 (1040)	Franchise Tax Board P.O. Box 942840 Sacramento, CA 94240-0001 (CA Form 540)
Amended return with balance due (paper filing; mail the signed return and payment) [If in response to a letter from the IRS or FTB, see below]	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0422 (1040X with payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0001 (CA Form 540X with payment)
Amended return with nothing due or refund (paper filing; mail the signed return) [If in response to a letter from the IRS or FTB, see below]	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0422 (1040X)	Franchise Tax Board P.O. Box 942840 Sacramento, CA 94240-0001 (CA Form 540X)
Estimated payments (mail the payment and voucher)	Internal Revenue Service P.O. Box 510000 San Francisco, CA 94151-5100 (Form 1040ES)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (Form CA Form 540ES)
Automatic six month extension – no payment (mail the form)	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0045 (Form 4868)	Nothing to file
Automatic six month extension – with payment (mail the form and payment)	Internal Revenue Service P.O. Box 7122 San Francisco, CA 94120-7122 (Form 4868 with payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (Form CA 3519 with payment)
Response to CP2000 letter from IRS, or letter from FTB	Mail to address specified in letter with 1040X if needed, any needed documentation, and payment as needed (if possible)	Mail to address specified in letter with 540X if needed, any needed documentation, and payment as needed (if possible)

GENERAL INFORMATION

- Volunteering with AARP Foundation Tax-Aide: direct interested persons to aarp.org/tavolunteer, 800-775-6776, or put them in contact with your District Coordinator or Local Coordinator
- Those interested in other AARP programs, such as Reverse Mortgages, Senior Community Service, and Money Management, should be directed to www.aarp.org; they can also call 800-775-6776
- Donations: Tax-Aide volunteers cannot accept money, nor are they allowed to bring up the subject of donations with a client.
 - o Clients who ask about donations should be told that they may send a check payable to the “AARP Foundation Tax-Aide”, to the AARP Foundation Tax-Aide Program, 601 E Street, NW, Washington DC 20049 (pre-printed envelopes can be helpful). Ask them to write your sub-state - “CA1”, “CA2”, “CA3”, “CA4”, or “CA5” - on the memo line of the check.
- If the laptop computer in your custody is lost or stolen, you must report the loss/theft to your Local Coordinator AND to the AARP National Office, 800-424-2277, ext. 6021 or 6027

RESOURCES

AARP Foundation

- The OneSupport Help Center is available through the [Volunteer Portal](http://volunteers.aarp.org) (volunteers.aarp.org); look on the left navigation bar, in the “Tax-Aide Links” section
- Of particular note is “TaxSlayer Manual ... Preparing A Return In Practice Lab” (OneSupport Help Center > Tax Training > TaxSlayer)
- AARP Foundation Tax-Aide counselors should NOT act on information contained in “IRS Quality Alerts.” Tax-Aide will redistribute relevant alerts as CyberTax messages, which are automatically sent to all Tax-Aide volunteers who have an email address in the Tax-Aide database
 - o CyberTax messages are also at the OneSupport Help Center (go to “Communication”, then “CyberTax”)

Internal Revenue Service and Franchise Tax Board

- IRS website – Publications (“Pubs”), forms, and answers to tax questions: irs.gov/
- Franchise Tax Board (State of California) website – Publications, forms, and answers to questions: ftb.ca.gov/
- myFTB – Information on estimated tax payments made, balance due, CA wage and withholding information: ftb.ca.gov/online/myacct/index.asp (requires prior year’s state tax information to register for an account; PIN will be sent via mail, after registration, and is required to log in)

****Do not share Volunteer Hotline numbers, below, with clients****

IRS PHONE NUMBERS

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

Volunteer Hotline	800-829-8482
Tax Information	800-829-1040
Automated Refund Info	800-829-1954
e-file Help Desk (for rejects)	866-255-0654
ID Protection Specialized Unit	800-908-4490

FTB PHONE NUMBERS

M-F 8am to 4pm, Pacific Time

Volunteer Hotline	800-522-5665
Volunteer Coordinator	916-845-6237
General Number	800-852-5711
Automated Service	800-338-0505
ID Theft Resolution Coordinator*	916-845-3669

* **CA Note:** In ID theft cases, paper-file the California return. The FTB will contact the taxpayer regarding discrepancies. The CA ID Theft Resolution Coordinator should be contacted only after a federal ID theft case has been set up.

TaxSlayer

- TaxSlayer has a Knowledgebase that can be consulted for answers to commonly asked questions: taxslayerpro.com/kb
- The TaxSlayer VITA/TCE blog is at vitablog.taxslayerpro.com
- TaxSlayer has published a [help desk support](#) document with information about online chat support. The support phone number in that document, 1-800-421-6346, has listed hours of 8 a.m. to midnight, Eastern

What Tax-Aide Can and Cannot Do - Scope

Standard Time, on weekdays, and 8 a.m. to 8 p.m. on weekends, from January 2 to April 23. [Information about that and other support is in ERO Bulletin TS2016-01, available in the OneSupport Help Center; go to Technology, then Tech Bulletins.]

ACA - Covered California

- Website: coveredca.com, Tel 1-800-300-1506 (TTY: 1-888-889-4500)

California (sub)State Websites

- CA1: <http://taxaidenorthca.org/>
- CA2: <http://aarpc2.org/>

Recommended steps for researching an unfamiliar topic

- Question the taxpayer thoroughly to obtain all relevant facts, while reviewing their Intake/Interview sheet and the related tax form(s)
- Begin with [Pub 4012](#) (you should have the 2016 paper version, three-hole punched), which provides information for most common questions, including questions related to TaxSlayer, in an easy-to-use format.
 - Publication 4491-X, VITA/TCE Training Supplement, is published in mid-December, and contains updates to Pub 4012; in addition, NTTC sometimes publishes supplements.
- Review what this manual recommends (if you're reading the paper version, remember that you can search the electronic version – the location is on the cover of this manual – as well as use the paper index at the end of this manual).
- Consult the instructions for the relevant form
 - Federal, if not in a return, on the “Helpful Information” menu on the left, click “IRS website” > Forms and Pubs
 - Federal, if in a return: click the taxpayer’s name to get the pull-down menu > Helpful Tools > IRS Publications
 - CA: ftb.ca.gov/forms
- For federal tax questions, consult [Pub 17](#) – use a key word search in the electronic version or, in the paper version, start in the index looking under a main heading first and then a subheading.
- For California tax questions, consult one of these FTB Pubs:
 - [California 540 Forms and Instructions - 2016 Personal Income Tax Booklet](#)
 - [1001, Supplemental Guidelines to California Adjustments](#)
 - [1005, Pension and Annuity Guidelines](#)
 - [5130, VITA/TCE California Volunteer Reference Manual](#)
- Ask a more experienced counselor
- Search the OneSupport Help Center, available through the [Volunteer Portal](#) (volunteers.aarp.org)
- Use one of the Volunteer Hotlines listed above, on page 1

WHAT TAX-AIDE CAN AND CANNOT DO - SCOPE

In general

- The AARP Foundation 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 individual taxpayers, with special attention to those ages 50 and older.
- The National Tax Training Committee (NTTC) of the AARP Foundation publishes a comprehensive list of which federal tax forms are in-scope and which are ***out-of-scope***. The list can be downloaded from the [Volunteer Portal](#) (volunteers.aarp.org; login required) > OneSupport Help Center > Tax Training > Scope. Each site should have a printed or electronic version of this document for reference.
 - **Note:** Pub 4012 also has a “Scope of Service” section (pages 9 through 11). ***Do not use this;*** it differs slightly from the NTTC (AARP) list, and is less detailed. Where the two differ, the NTTC-defined scope should be followed.
- Also ***out-of-scope*** are high-income tax returns, because they are subject to an additional Medicare tax
 - The limits are \$250,000 for MFJ, \$125,000 for MFS, and \$200,000 for the other filing statuses
 - “Income,” for the purposes of this scope limitation, is defined as W-2 wages subject to regular Medicare taxes, plus self-employment income, plus railroad retirement (RRTA) compensation
- ***“Out-of-scope”*** can have one of two consequences:

- o If the issue involves something that is optional – for example, claiming moving expenses (Line 26 of the 1040), then the taxpayer has a choice:
 - Don't take that option (almost always this will be claiming a credit or a deduction), and have Tax-Aide prepare the return, for free.
 - If the taxpayer chooses this option, document the decision in a note (page 8) and on the Intake/Interview sheet
 - Use a paid tax preparer or use tax-preparation software, particularly where the option involves significant dollar amounts. Counselors must advise the taxpayer of this choice.
- o If the issue involves something that must be reported on a tax return, then the taxpayer must be advised that Tax-Aide cannot prepare the return.
 - For example, business expenses on Schedule C **may not** be understated in order to get a larger earned income credit

Preparation of a return that is out-of-scope

- Knowingly going out of scope is a violation of the AARP Standards of Professionalism and should be reported to the LC; an incident report must be submitted.
- Volunteers who knowingly prepare returns with out-of-scope tax topics or forms risk the loss of protection from personal liability; they also are subject to counseling and may be removed from the program for failure to follow program policy.

Other critical issues

- The Tax-Aide program only prepares individual tax returns (Form 1040). Tax returns for other entities are ***out-of-scope***.
- Regardless of training and/or certification, if a counselor is not confident in their knowledge of forms or issues relating to a taxpayer's return, that counselor is not to prepare or review that return.
- When volunteers are not certain that a complete and accurate return can be prepared, taxpayers should be referred to another counselor or to another site, or to a paid preparer. Alternatively, taxpayers may elect to prepare their own returns, using either free software (see [irs.gov/filing](https://www.irs.gov/filing)) or purchased software
- Federal or California returns that require income splitting ***out-of-scope***. Income-splitting is required for:
 - o MFS returns (see limited exceptions, in Married Filing Separately , below, page 14)
 - o Registered Domestic Partner (RDP) returns
 - o Innocent spouse returns

California scope

- For full-year residents of California, a CA tax return (Form 540) will always be done when a federal tax return is done, unless the taxpayer has already filed using [CalFile](#)
- For part-year residents and for those not residing in California but having income sources in the state, the required form for state filing, CA Form 540NR, is ***out-of-scope***.
 - o A site is allowed to prepare only the Federal return in such cases, IF the State Coordinator sets policy to allow this. Otherwise the federal return is ***out-of-scope*** as well.
- For a taxpayer who was a non-resident for the entire year, the *federal return* is in-scope. If the state where the taxpayer resided does have a state income tax, the taxpayer must be advised of their responsibility to file a state income tax return for that state, if a return is required for that taxpayer.
 - o Document this discussion in a note (page 8) and on the Intake/Interview sheet

ONLINE PROCEDURES

BROWSERS AND BROWSER SETTINGS

- TaxSlayer Pro Online is web-based software that is accessed via an Internet browser.
 - o **Note:** in this manual, the software is referred to simply as “TaxSlayer”
- Chrome is the recommended browser, but TaxSlayer supports all major, relatively recent browsers on Windows, Mac, and Linux platforms. *Notebooks that run the Chrome operating system may not be used for tax preparation.*
- Make sure that **pop-ups** are not blocked, since these are used by TaxSlayer
 - o For the Chrome browser: in a new tab or window, in the address bar, type **chrome://settings** and press [Enter] or [Return].

Online Procedures

- On Windows 10 computers and on Macs, at the bottom of the page, click on “Show advanced settings”, then in the Privacy area, click on “Content settings”. In the pop-up window, scroll down until you see the Pop-ups section; in that section, click on “Manage exceptions”. Then add **<https://taxslayerpro.com>** and click “Done”; you can now close the Settings tab
- On Windows 7 computers, if Chrome doesn’t automatically display PDFs in a browser tab or window, click on “advanced settings”, pop-ups, Manage exceptions, and add **<https://taxslayerpro.com>**
- This change won’t affect pop-up blocking anywhere other than TaxSlayer.
- Prevent the saving of TaxSlayer **PDFs** (tax returns) to your computer
 - For the Chrome browser: in a new tab or window, in the address bar, type **chrome://settings**
 - On Windows 10 computers and on Macs, at the bottom of the page, click on “Show advanced settings”, then in the Privacy area, click on “Content settings”. In the pop-up window, scroll down until you see the Plugins section; in that section, click on “Manage individual plugins” [*not* “Manage exceptions”]. Then, for the Chrome PDF Viewer, click “Enable” if that is visible; if “Disable” is shown instead, then this plugin is already enabled. You can now close the Plugins and Settings tabs that were opened.
 - On Windows 7 computers, if a PDF does not automatically open in a new tab or window in the browser, type **chrome://extensions** in the address bar, to verify that the PDF Viewer is an existing extension. If not, go to the Chrome Web Store to add this extension to your viewer.
 - When Chrome is set up this way done, your computer won’t use Acrobat Reader to display PDF files when you are using the Chrome browser. Instead they will display in a Chrome window, which is safer in terms of not saving files to your computer’s hard drive.
- It is also recommended to turn off a browser’s suggestions for **automatically filling** a field; that is not a good thing when entering taxpayer data in TaxSlayer, both because the browser’s suggestions aren’t likely to be useful and because the browser should not be storing data entries made in a taxpayer’s return.
 - For the Chrome browser: Disable Autofill by going to Settings (in a new tab or window, in the address bar, type **chrome://settings**), click on “Show advanced settings”, then in the Passwords and Forms section, uncheck "Enable Autofill to fill out forms in a single click"
 - If you are using your home computer, and disable Autofill, you don’t lose any information. When you change this setting to again enable Autofill, Chrome will remember all previous Autofill entries.

LOGIN PROCEDURES

- When you create a new password, your password must be at least **eight** characters long, and must contain at least one special character (!@*)
 - Remember that passwords are case-sensitive.
- If you log in from a new computer (one from which you have not logged in to TaxSlayer previously), after you type your user name and password, TaxSlayer will display the **Verify Account** page
 - You will need to select a delivery option to get the security code you’ll need to continue logging in
 - Your Local Coordinator should have set up these for your user name: a phone number (for a text) and an email address (for an email)
 - **Tip:** If your site does its Quality Review process by having the reviewer use the computer of the preparer, *and* the preparer logs off and reviewer logs on as part of this process, then *each person who will be doing reviews should log into every computer where they are likely to do a review, before the site is active.*
- If you forget your password, you have two options:
 - You can enter the answer to your security question, if you remember that
 - You can select a delivery option to get a security code (see above)

AT START OF THE DAY

- Verify that you are connected to the Internet
- Open TaxSlayer in your preferred browser
 - Preferably this is done from a browser bookmark or from a shortcut on the computer’s desktop screen
 - The same URL is used for preparing or amending both current year and prior year returns
 - Returns prepared for training purposes are done in the Practice Lab, which is at a different URL, and has different usernames and passwords
 - As of the print date for this manual, you can login to the Practice Lab via **<https://vita.taxslayerpro.com/IRSTraining/en/Account/Access>**
- Log into TaxSlayer

- o **Note:** In Practice Lab, TaxSlayer allows two simultaneous logins from the same username. It is unclear if this will be the case in production mode.
- Maximize the screen:
 - o For Windows, click the box at upper right, then press the **F11** key. This will maximize the window by hiding the Windows toolbars.
 - Pressing **F11** again will toggle the toolbars back on
 - o On a Mac, on the upper left of the screen, click the green “Maximize” button
 - Clicking again on the green “Maximize” button will toggle the toolbars back on (if the button is not visible, move the pointer to the upper left corner of the screen)
- **Note:** After 17 minutes of inactivity within a return, TaxSlayer will display a pop-up warning. After 20 minutes of inactivity, a user will be logged out of that return

NAVIGATION WITHIN A RETURN

- When you’re in a return, the normal layout of your screen is a column on the left for navigation (including a search box), plus navigation links near the top of the page, plus a data input work area. In addition, the taxpayer’s name will show *after* Basic Information is entered; this is important because a pull-down menu displays when you click on the taxpayer’s name. (See [page N-7 of Pub 4012](#) for an illustration; the taxpayer’s name is “test return”.)
- On a menu page – for example, **Income**, in the Federal Section – you can click anywhere on a line to select the action (“Begin” or “Edit”) for that line.

Left Navigation Bar

Note: The left navigation bar will be hidden if your screen or browser window is too narrow. In such cases, you can force it to appear by clicking the three-bar icon in the upper left of the browser window.

- Most of the items on the navigation bar are self-explanatory. Some brief notes:
 - o “Enter the Form Number” is discussed in the section Getting to a Specific Page to Enter Information, on page 6, below.
 - o The “e-File” section is last section to be done. It must be done for **every** return, even if that return will be paper-filed. It is where bank account information is entered, and client demographic information is collected. Also, in some returns, it is where information is entered to determine if the Earned Income Credit should be allowed.
 - o Summary/Print opens the **Calculation Summary** (Form 1040) page. That page has links to go to the specific TaxSlayer page where data entry can be or was done for that line.
 - **Tip:** To leave the **Calculation Summary** page, click “MENU” (upper left of the screen) rather than scrolling down and clicking “Continue”

Top Navigation

- If you’re in either the Basic Information section, or the Federal section, you’ll see subsections listed to the right of the taxpayer name. Clicking on a subsection link can speed up navigation.
 - o **Note:** the subsection “Deductions” includes adjustments, deductions, and credits.

Taxpayer Name Drop-Down List

Clicking on the taxpayer name, or the downward-pointing symbol to its right, displays a drop-down list, which TaxSlayer calls **Tools**. [The taxpayer’s name will show only *after* all Basic Information has been entered.]

- Clicking on “Your Office” will exit the return, taking you to the screen where you can start a new return, or do a “client search” to find an existing return.
- “Si hablo Espanol?”, when clicked, shows a pop-up window. If you select “Espanol”, then TaxSlayer pages will be in Spanish, not English; similarly, tax forms will print in Spanish.
- Clicking on “Notes” opens a pop-up where notes can be added, and existing notes can be seen. (For more information, see the Notes section, on page 8, below.)
- “Quick File” is a way to build a list of pages that TaxSlayer will then display, sequentially, for entering information. (For more information, see the Quick File section, on page 18, below.)
- “Helpful Tools” has only two useful links:
 - o “IRS Publications” opens a new browser window with the [IRS page that lists publications and notices](#)
 - o “Print or View Your Return” is a shortcut to display the PDF for the return

- o **Note:** The “User Manual” link is *not recommended* until tax season begins; a longer and much better user manual, tailored for the AARP Tax-Aide program and the TaxSlayer Practice Lab, is available (as of the print date of this manual) at OneSupport > Tax Training > TaxSlayer

Other Screen Elements

- For the two dollar amounts shown as refunds, at the top, any amounts *due* will be in *red*
- Clicking “Preview Return”, in the upper right of the screen, will generate a PDF of the tax return. This can be helpful in checking the information that was entered for Schedules A, C, and E. It can also be helpful for reviewing specific IRS and FTB forms that have (or should have) become part of the tax return because of less common situations, such as the taxpayer qualifying for the Retirement Savings Credit.

Getting to a Specific Page to Enter Information

- A specific TaxSlayer page **in the Federal Section** can be reached in a various ways:
 - o In the left navigation bar, use the search box that says “Enter the Form Number.” Often you’ll only need to enter a few characters.
 - You aren’t limited to just form *numbers* – for example, typing “SSA” (or “ssa”; capitalization isn’t relevant) will generate a list of about a dozen links to pages; the fourth, fifth, sixth, and seventh links all lead to the **Social Security SSA-1099** page.
 - In this manual, the suggested text to be entered into the search box, to get to a specific page, is shown by the underlined text within the bolded name of the TaxSlayer page
 - A few data entry pages in the Federal Section are **not** reachable from the search box – the only way to get to them is via the menu structure. When that is the case, this manual will so state.
 - o Click on “Summary/Print”, in the left navigation bar, which generates a Form 1040; then click on any blue dollar amount (for example, on line 7, “Wages, salaries, tips, etc.) to go to the related TaxSlayer page (in this example, that would be the **W-2** page)
 - o Assuming that you’re already in the Federal Section, click on a specific section along the top navigation bar (for example, “Deductions”). Then click “Enter Myself”. Then keep drilling down – for example, you could select “Credits Menu”, then “Child Care Credit (Form 2441)”. That would bring you to the **F2441 - Child Care Credit - Page 1** page.
 - If you select “Guide Me” rather than “Enter Myself”, TaxSlayer will walk you through a set of questions. *This is to be avoided – it takes far too much time.*
 - o When you’ve used Quick File (see page 18, below) to create or modify an initial list of pages, return to Quick File, add the additional page to the Quick File list, then continue through the list to the newly added page.
 - If using the Quick File list as part of the quality review process, this needs to be done so that the list of Federal Section pages is complete
- **Note:** The only way to navigate **in the State Section** is by the menu system (use “Enter Myself”)

ENTERING INFORMATION

Concepts

- **Information entered on a page is NOT saved until you click “Continue” at the bottom of that page. If your session times out before you click “Continue”, TaxSlayer does not save the data on that page.**

- Most TaxSlayer pages don’t have a “Back” button. Instead, clicking “Continue” is the equivalent of saying “I’m done with this page, take me up one level”
 - o **Note:** Very occasionally, when you click “Continue”, the next thing you’ll see is an apparently blank screen. In fact, it’s *not* blank; what you’re seeing is the space *below* a menu. Scroll up, and you’ll see that menu. [Yes, this is a bug in the software.]
 - o It’s possible to use a **browser** action to go back one page in TaxSlayer, but this isn’t straightforward. Most of the time, if you try this, you’ll see a popup that says “Do you want to leave this site?” If you then click “Leave”, you’ll go to the previous page you were at. But clicking “Continue” would, almost always, get you there to that previous page more quickly.
- Pages for entering information usually have a “Cancel” button. If you don’t want to enter any information on that page, click “Cancel” rather than “Continue”.

- o If you click “Continue”, TaxSlayer sometimes saves the page, even though no information was entered. That opens the possibility that a page without any entries will be printed in the tax return, and, even worse, that the e-file will contain a page that could cause an IRS reject.
- o The “Cancel” button should be used in the taxpayer profile and Quick File processes to skip a page that you don’t need.
- o **Note: Do not click the “Cancel” button anywhere in the State Section.** If you do you’ll see a warning pop-up, “Your [state name] State Return has not been saved!” **If you see this warning, always click “Return to the State Return process”.** Clicking on one of the other two options may temporarily *break the state refund display*.
- When you open a page, information from other places may be used to fill (as appropriate) fields on that page. For example, on a TaxSlayer **W-2** page, the Employee address information is filled using information from the **Personal Information** page.
 - o **If you later change the information on the source page, that change does not replicate on other pages where information has been entered.**
 - In the example here, assume you entered information into two **W-2** pages, then realized, when working on a 1099-R form, that the taxpayer’s address was entered incorrectly in the Basic Information section. So you go to the **Personal Information** page and change the address information there. You’re still not done - you must go to those two **W-2** pages and check the employee addresses there, to make sure that they’re correct – because they won’t have changed.
- TaxSlayer’s general approach is that each taxpayer document has a matching TaxSlayer page. But sometimes there won’t be a 100 percent match – information on a paper document will need to be entered in TaxSlayer both on a main page and *somewhere else*.
 - o If *somewhere else* is a TaxSlayer page within the Federal Section of TaxSlayer, this isn’t a big deal – you should finish the main page, then go to that other page.
 - For example, if a Form 1099-INT has both taxable and tax-exempt interest, information from that paper form is entered on both the **Interest Income** page and the **Schedule B Other Interest** page. These two pages happen to be close to each other on TaxSlayer’s menu system, but if they were not, you could use the search box to go quickly to the second page.
 - o If *somewhere else* is in the State Section, you should **delay** data entry until you’ve finished the Federal Section of the tax return.
 - o If you don’t immediately go to a second TaxSlayer page to finish entering information, you should **highlight which information on the paper document has to be entered later**, and/or make a note on a list about that information, and/or create an internal TaxSlayer note (see page 8), and/or use a post-it to mark the document. In other words: **you should have a system** so that you don’t forget about later entering this information.
 - There are significant advantages to creating an internal note in TaxSlayer whenever you need to defer entering information.
 - With a note, you’ll automatically be reminded when you start the process of completing the e-File section, because the first page in that section shows all notes.
 - The reviewer will similarly see all notes when finishing the quality review, in the e-File section, or earlier if the reviewer specifically checks for notes. That’s why preparers generally shouldn’t delete notes – just change them to indicate something was DONE rather than needing to be done.
- Although TaxSlayer has Notes, they can’t be used for **calculating totals**, as for example if there are multiple property-tax payments during a year. If a counselor does calculate a total, and then enter only that total into TaxSlayer, it is recommended that the calculations be documented in the taxpayer’s records and/or typed into a note, depending on local policy.

Specifics

- In TaxSlayer, *calendar dates* are entered in three separate fields: Month, Day, and Year. If no data has yet been entered, the format is shown by MM DD YYYY
 - o If date information is typed, rather than entered using the drop-down list, *do not* type leading zeros for the month or day of month. For example, January 6th would be “1” for the month and “6” for the day, *not* “01” and “06”. (If you type “01 or “06”, TaxSlayer will not put anything in the field.) Use the tab key to move between fields.
 - o To enter February 29, the year must be selected first, so TaxSlayer can confirm that it was a leap year.
- Dollar amounts can be entered with or without cents

Online Procedures

- o If you want to enter a dollar amount **without** cents, round **up** for 50 to 99 cents, round **down** for 1 to 49 cents.
- o If you are adding two or more dollar amounts to determine the amount to enter into a TaxSlayer field, don't round the individual numbers. Include cents when adding dollar amounts; round *only* the total.
- o If you prefer, or are directed by your LC, enter the cents and let TaxSlayer do the rounding
 - **Note:** When you enter a dollar amount that includes cents, TaxSlayer will round that dollar amount after you save the information on that page (after you click "Continue")
- There are several ways to reduce the number of times you need to take a hand off the keyboard to use your computer mouse or trackball or similar:
 - o Tabbing between fields
 - o For check boxes, using the space bar to select that check box, or to unselect it.
 - **Note:** You can also click anywhere on the line with the check box to select that check box
 - o In a drop-down list, typing the first letter of the choice you want, and then using the up or down arrow, if necessary, to go to the exact choice.
 - o Using the [Page Down] and [Page Up] keys (sometimes [PgUp] and [PgDn]) when a TaxSlayer page doesn't fully show on a screen.
 - On a Mac, this is done using the function key ([fn]) plus the down or up arrow.
- Regardless of how you enter alphabetical information, TaxSlayer will print returns with ALL CAPITAL LETTERS.
 - o You may find that entering information is faster if you turn on **Caps Lock**, on your keyboard, so that all text is also entered with CAPITAL LETTERS
- TaxSlayer will automatically remove periods and extra (double) spaces in text fields
- If, after you click "Continue", you see an error message appear at the top of a page, you can go directly to the problem field on that page by clicking on the error message.

COMMUNICATING WITHIN TAXSLAYER

Messages

- In the production version of TaxSlayer, the "Message Center" on the Home page can be used to communicate among volunteers at a site. Messages can be sent by any volunteer, and can be addressed to any or all others at the site.
- The Message Center is also used by TaxSlayer staff to communicate to those using TaxSlayer, but this is purely one-way: users cannot send messages back to TaxSlayer staff using the Message Center.

Tags

- On the Office Client List page, returns can be marked with *tags*, such as "Waiting on Signature"; TaxSlayer refers to these as "return tags"
 - o The tag icon for each return is immediately to the left of the printer icon for that return; it will be grayed out unless a tag has been created by clicking on that icon and checking one or more boxes
- TaxSlayer has a standard (limited) set of tags; Local Coordinators (if assigned site administrator capabilities) can add more
- The Office Client List page has a "Filter by Return Tag" field, which can be used, for example, to list all returns that have a tag indicating an e-file error.
- *Notes* can be used to expand on a return tag. For example, a return might be tagged as "Waiting on Information", with a separate note saying exactly what information is still needed.

Notes

- **Within a return**, TaxSlayer has one place to record free-form information: *notes*.
 - o After the Basic Information section of a return is completed, the name of the taxpayer will appear at the upper left of the screen.
 - o Clicking on the taxpayer name, or the downward-pointing symbol to its right, displays the **Tools** drop-down list, which includes "Notes".
 - o Clicking on "Notes" opens a pop-up where notes can be added, and existing notes can be seen.
- Notes **will carry forward** to the next year's return.
- Notes don't automatically identify the author, or include a date/time stamp

- o It is highly recommended that this information be manually added, as, for example, “EF: 2/15/2017, 11:05 AM
- You can paste the contents of a group of spreadsheet cells to a note (for example, where you’ve added some dollar amounts together), but only the cell values will be copied, not the cell structure. So, for example, information in second and subsequent columns won’t be aligned.
- You can change the color of the notes, but any change is made to *all* notes.
- If you want to look at **existing notes** when **within** a return, follow the same process (see above) for creating a note; you’ll then see a pop-up window, “Found notes”, which will list the title of each existing note.
 - o To view the content of a note, **double-click** on the title of that note.
- On the **Office Client List** page, tax returns which have notes will have a *blue* flag, rather than a grayed-out flag, in the column to the right of the STATUS column.
 - o Notes can also be **added** when at this page.
- Printing notes:
 - o Notes can be included as part of a print package if the Local Coordinator or another admin, in the Advanced Print Setup Menu, selects “Print Supporting Notes with Tax Return”
 - o If notes exist for a return, and aren’t included in the print packet, the notes can be printed from the **Office Client List** page: once notes are opened, click on the “Print PDF” button to create a PDF for all notes.
- In general, a preparer shouldn’t delete a note that reminds the preparer of something that needs to be done. Instead, the note should be changed to indicate something was DONE. Retaining notes can be very helpful to the person doing the quality review.

INITIAL STEPS FOR A TAX RETURN

INTERVIEWING THE CLIENT

Note: Some of this may have been done by a Client Facilitator (CF)

- Verify the client’s Social Security number (see Social Security Number , page 12, below) and identity (government-issued photo ID)
 - o As of 2016, policy has changed with regard to married couples where only one spouse is present. If there is no state or district policy addressing this, then a Local Coordinator **may**, at their discretion, establish a policy that only one spouse need be present at that Tax Aide site during preparation of a return.
 - o **Note:** Policy has also changed with regard to signatures on 8879s for married couples. State, district, or local (site) policy may require one of the following:
 - Both taxpayers to come to the site, together, with picture identification and the 8879s, signed by both.
 - The taxpayer not present at the preparation of the return comes to the site, with picture identification and the 8879s, signed by both (or signs the 8879s at the site)
 - The taxpayer who was present at the preparation of the return to come back to the site, with picture identification of their spouse, and the 8879s, signed by both.
 - Per paragraph 6.6 of the 2016-2017 *Policy and Procedures Manual of Tax-Aide*, this alternative is not allowed for **new** taxpayers – those who didn’t use the local site for the preparation of last year’s tax return.
- Explain the tax-preparation process, particularly responsibility of the client, and that a separate QR is done
- Confirm information provided by the client on the Intake/Interview sheet
 - o Complete the dependent information on page 1 as applicable
 - o Complete the health insurance information on page 3 (annotate answers for reviewer)
 - o If not comfortable with the complexity of the return, get another counselor to be the preparer
- Get client to provide any information that they might have missed on the Intake/Interview sheet
 - o Write that information on the sheet, preferably in a different color
- Review all supporting documentation, such as SSA-1099 forms, Form W-2s, and Form 1099-Rs, and place these in the order they will be used (normally, in the order listed on the Intake/Interview sheet, which is approximately the order on the Form 1040)
 - o Make sure that no item is out of scope; finding something later is a waste of time for both the preparer and the client
 - o Make sure that client isn’t expecting any additional documentation, such as a Form 1099-INT, a Form 1099-DIV, or a broker’s statement

Initial Steps for a Tax Return

- o The interviewing process can be integrated with the Quick File process (see page 18, below) if, after discussing each document with the client, the related page is added to the Quick File list.
- Compare the dollar amounts on the 2015 return, if available, to the supporting documents for the 2016 return, to see if those dollar amounts are consistent with the 2016 information. If not, ask the client about the differences.
 - o Alternatively, for clients who brought everything from their 2015 return preparation, you could compare 2015 documents, particularly 1099-Rs and 1099-Bs, to similar documents for the 2016 return, looking for missing 2016 documents or significantly different amounts. This approach, however, will take longer and may not improve accuracy.
- After you have a general idea of the client’s income (from reviewing documents, or from entering information into TaxSlayer), **determine if total income seems adequate to live on.**
 - o A client may be receiving SSI (not reported on tax returns), or living on savings, or doing something else that explains their low income and doesn’t affect their tax return. Alternatively, the client may actually be a dependent of another person. *If the known income seems inadequate, ask the client for more information.*

DETERMINING IF A RETURN IS REQUIRED

- **Tab A of Pub 4012** covers who must file
 - o **Form 9452, Filing Assistance Program (Do you have to file a Federal Income Tax Return?)** is *out-of-scope*; do not prepare this for a client.
- Chart D of Tab A lists who would benefit from filing, even though they have no requirement to do so. The most common situations are:
 - o To get a refund of federal and/or state income taxes withheld (for example, a return done for a dependent, who had taxes withheld on a Form W-2)
 - o The taxpayer qualifies for an income-based refundable credit: federal EIC, American Opportunity Credit, etc.
- If the client does not file a return, record the client as a Q&A on the daily Activity Log.
- For taxpayers who must file and who have one or more dependents who are old enough to work, ask about any earned income for the dependent(s). The dependent(s) may be required to file separately (see **page A-2 of Pub 4012**).
- For taxpayers who must file and who have one or more dependents of any age, ask about any unearned income (typically interest, dividends, and/or capital gains)
 - o If a child under the age of 18, or under the age of 24 and a full-time student, has more than \$2,100 of unearned income, the child is subject to the “Kiddie Tax”. Both **Form 8814**, to pay this tax on the parent’s tax return, and the alternative, **Form 8615**, to pay this tax on the child’s tax return, are *out-of-scope*, and the taxpayer needs to go to a paid tax preparer or use tax-preparation software.
 - Unearned income includes *all taxable income other than earned income*: taxable interest, pension and annuity income, etc. For the purposes of determining whether the Kiddie Tax applies, “unearned income” also includes taxable scholarship and fellowship grants not reported on a Form W-2.

ORGANIZING YOUR WORK

- Putting documents in good order and keeping them that way through the entire process can reduce errors
- While or after interviewing the client, sort all supporting documents by type, into the following sequence, if a Client Facilitator has not already done this. (The order follows the Intake/Interview Sheet.)

Supporting Document or Form	TaxSlayer page (or menu) (in Federal Section, unless otherwise specified)
Last year’s tax return	Basic Information section
Social Security cards, ID cards	Basic Information section
Income	
W-2s – wages	<u>W-2</u> [underlined, shaded: type that text into the search box]
1098-T Taxable Scholarship	Income > Other Income > Other Compensation > Scholarships and Grants (<i>do not enter if fully offset by educational expenses</i>)
1099-INT – interest	Interest and Dividend Income
1099-DIV – dividends	Interest and Dividend Income

Supporting Document or Form	TaxSlayer page (or menu) (in Federal Section, unless otherwise specified)
1099-G – State Tax Refund (postcard)	Income > State and Local Refunds (1099-G Box 2) (leads to State Refund Worksheet) (search box: “Form 1099-G Box 2”)
Alimony received (if any documentation, which is not required)	Alimony Received
1099-MISC	Form 1099-MISC
1099-B – sale of securities	Schedule D Capital Gains menu
Broker’s statement	Follow rules for 1099-INT, 1099-DIV, 1099-B, 1099-OID. <i>Also look for broker charges that could go to Schedule A - Miscellaneous Deductions</i>
1099-R	Form 1099-R
RRB 1099-R (green form)	RRB-1099-R
1099-G Unemployment benefits	Unemployment Compensation
SSA-1099 Social Security	Social Security SSA-1099
RRB-1099 (blue form) Railroad Retirement tier 1	Social Security SSA-1099
W-2G Gambling Winnings	W-2G Gambling Winning
Schedule K-1 (<i>but verify there are no out-of-scope items</i>)	Schedule K-1
1099-LTC	Form 8853 - Medical Savings Account (scroll down) (Quick File: “1099-LTC”)
Expenses	
Alimony paid - canceled checks	Alimony Paid
IRA contributions	IRA Deduction (not available via Quick File)
1098-T Tuition Statement	Form 8863 - Educational Credit (Quick File: “1098-T”)
Medical costs (list), miles (number)	Schedule A - Medical Deductions
1098 Mortgage interest	Deductions > Itemized Deductions > Mortgage Interest and Expenses (leads to Schedule A Interest) (search box: “Home Mortgage Interest”)
Property tax bill, car registration or registration payment	Deductions > Itemized Deductions > Taxes You Paid (leads to Schedule A - Taxes You Paid) (search box: “Personal Property Deduction”)
Charitable donations (list), volunteer miles (number)	Charity Cash Contributions
1098-E or lender statement for student loan interest	Student Loan Interest Deduction
Life Events	
1099-C Cancellation of Debt (only credit card debt is in-scope)	Form 1099-C
1099-S Sale of home	Schedule D Capital Gains menu (<i>In Quick File: Sale of Home</i>)
Health Care Coverage	
1095-A Health Insurance Marketplace Statement	Health Insurance section
Marketplace Exemption Certificate Number	Health Insurance section

- **Note:** [Pub 4012, starting on page D-3](#) has a four-page list of items that can be entered into TaxSlayer, showing their respective 1040 line and how to navigate to the related data entry page in the Federal Section of TaxSlayer. That list is useful for items not in the table above. A far more comprehensive list (40+ pages; again, alphabetical, and for navigating the Federal Section) can be found on the North Carolina Tax-Aide website (taxvolunteers.com/); click on either of the “QuickGuide” links.

STARTING A NEW RETURN

- On **Main Menu** page, go to the “Start New Tax Return” line and click “Select”
- Screenshots and other information about starting a return are in [Pub 4012, starting on page N-4](#)

Taxpayer Profile

On the initial pop-up window, you can select a taxpayer profile

- A taxpayer profile is simply a list of TaxSlayer pages that that TaxSlayer will display, sequentially, to enter data into the Federal Section of a return. Selecting and using a taxpayer profile is potentially the fastest way to complete a tax return.
 - For example, a Retirement Profile might have four TaxSlayer pages: 1099-R, SSA-1099, 1099-INT, and 1099-DIV.

Initial Steps for a Tax Return

- o Taxpayer profiles are created locally. If you want to suggest a change to a profile, or the addition of another profile, talk to your Local Coordinator.
- A taxpayer profile can **only** be selected at the initial pop-up window, when starting a new return – the choices are shown as “Available Taxpayer Profiles”
 - o Your Local Coordinator may set up a specific taxpayer profile as the default; if that is not done, then “Basic (no Profile)” is the default.
- You select a specific taxpayer profile by clicking on that profile name. When selected, the text and background color for that taxpayer profile become darker.
 - o It’s not critical to select a taxpayer profile that is an *exact* match to the paper forms and other documents you want to enter into TaxSlayer, because a taxpayer profile creates a Quick File list, which *can* be easily changed – adding and deleting pages as desired.
- If a taxpayer profile is selected, TaxSlayer will, *after* all Basic Information has been entered, sequentially open each TaxSlayer page in that profile, in the sequence listed in the profile, for you to enter information
 - o If a form is not needed, click “Cancel” instead of “Continue” to avoid the possibility of a blank form being inserted into the return, which could cause an e-file reject
- Taxpayer profiles never have multiple copies of the same page. There is a workaround. If, for example, you need to use the **Form 1099-R** page twice, complete one page, click “Continue”, then click “Back”. Then use the green “+Add” button so you can go to a second **Form 1099-R** page.
 - o After you fill out that second page, and then click “Continue”, TaxSlayer will take you to the next page in the taxpayer profile.
 - o **Note:** This workaround will *not* work for the final page on the list, if you need that page twice. Instead, after you get the “Congratulations” page, at the end of the taxpayer profile process, use the search box to go to that final page for a second time.
- As discussed in the Quick File section, if you’ve selected a taxpayer profile, or are using a profile that has been set as the default, it may be best, at the very first page that TaxSlayer opens for you, to immediately go to Quick File. In Quick File, you can modify the list of pages. Then you then can use the Quick File process to have TaxSlayer sequentially open all the pages that are on the modified list.
 - o While TaxSlayer will put a checkmark on that first page, Quick File will *still* begin with that first page.
 - o If the taxpayer profile contains *exactly* the pages that you need, then going to Quick File is an extra, unnecessary step.

Social Security Number

- If the return is for a **married couple**, one of whom is deceased, the Social Security number of the surviving spouse should be entered as the primary taxpayer, regardless of whether that person was listed first on the prior year’s printed return, because there is no carry forward data for 2016 returns (the exception is rare cases where the tax return for 2015 is being done as a Prior Year Returns.)
- The following are acceptable by Tax-Aide as Social Security number verification when used together with a government-issued photo ID
 - o Last year’s prepared tax return
 - o Social Security card
 - **Note:** The Social Security Administration (SSA) may issue a card with the notation “VALID FOR WORK ONLY WITH DHS AUTHORIZATION” – this is a valid Social Security number
 - o Social Security Benefit Statement, Form SSA-1099 or RRB-1099
 - **Note:** SSA documents with a redacted SSN (for example, *****-**-1234**) **are** acceptable for Social Security number verification **if** the number is consistent with the taxpayer’s Medicare card or other tax documents.
 - o A letter from the SSA showing name and Social Security number, or other documents from the SSA.
 - o An IRS letter or card assigning an ITIN
- If the taxpayer has an Individual Taxpayer Identification Number (ITIN), as discussed on page **106**, below (a nine-digit number beginning with 9 and having a 7 or 8 as the fourth digit)
 - o The taxpayer should bring the IRS letter which assigned their ITIN
 - o Check tax documents, such as Form W-2s, to make sure that the name is correct (the SSN will be incorrect)
 - If one or more tax documents have an incorrect **name**, the return must be paper-filed. After the Basic Information section is completed, create a note (see page **8**) saying that, and why
 - Similarly, if a Form 1099-R has an incorrect SSN/ITIN, the return must be paper-filed

- o ITINs with middle digits of 78 and 79 (for example, 9NN-78-NNNN) *expire* as of January 1, 2017. If the client has such an ITIN, see the section Individual Taxpayer Identification Number (ITIN) on page **106**
- If the taxpayer has neither an SSN nor a valid ITIN, the taxpayer must file a Form W-7 with the tax return
 - o Enter 000-00-0000 as the SSN
 - TaxSlayer will assign a non-duplicative SSN for such returns for your site, starting with 000-00-0001, and incrementing by 1
 - o The return must be paper-filed; after the Basic Information section is completed, create a note (page **8**) saying that, and why
 - o In TaxSlayer, the very first page for W-7 information (asking the reason for filing the W-7) **must** be completed to avoid an error message.
 - In TaxSlayer, the page is at Federal Section > Miscellaneous Forms > **Application for ITIN (Form W-7)** [not reachable via the search box]
 - Instructions for the form can be found at irs.gov/pub/irs-pdf/iw7.pdf; note the requirement for the taxpayer to provide supporting documentation when the form is submitted, in person or by mail
 - If one or more fields on the printed Form W-7 are blank, because a question(s) was not answered in TaxSlayer, tell the taxpayer that they must fill in these fields, manually, before submitting the Form W-7 with the tax return.

Carry Forward Information from the Prior Year Return

- If TaxSlayer finds a prior year return for the SSN that was been entered, it will display a **Pull Data to Current Return** page
 - o For 2016 tax returns, this will only be the situation when the tax return for 2015 was done as a Prior Year Returns.)
 - o Before clicking “Continue”, to accept the default of carrying forward prior year data:
 - Compare the current year tax documents provided by the taxpayer against what is listed on the TaxSlayer page, to identify missing documents for the current year
 - Uncheck the “Pull Item?” box for any document, such as a 1099-R or 1099-INT, where the taxpayer says that there was no withdrawal, or the account was closed, or other reasons why there is no current year document

OPENING AN EXISTING RETURN

- **Note:** If a return was started by *someone else* but is not yet complete, your LC may have to assign the return to your username in order for you to see the return.
- You can open a previously created return, for the current tax year, from the **Main Menu**, by selecting “Client Search”. That takes you to the **Office Client List** page. (In TaxSlayer, “office” is the equivalent of “site”).
 - o You’ll see a list of returns, sorted by Social Security number. (This may not be obvious, because the first five digits of Social Security numbers may have been replaced by “X”s; whether or not this is done is a local decision.)
 - o You can sort the list by clicking on a column name, such as “STATUS”. The most useful is probably “NAME”; this sorts by *first* name of the taxpayer.
- If the taxpayer return you’re looking for isn’t visible on the page, you can use the search box to search for text (part of a taxpayer’s first name or last name, typically) or a number (part of a taxpayer’s Social Security number or phone number).
 - o **Note:** The search also includes the “PREPARER” column
- After you click the “Select” button, TaxSlayer will display the Calculation Summary for the return
 - o The fastest way to display the left navigation bar, and then be able to go wherever you want in a return, is to click the “Summary View” button.
 - o Alternatively, you can select a line in the 1040 for which you want to enter information or review what was entered; click on the blue dollar number to be taken to the relevant page.

BASIC INFORMATION

- [Pub 4012, starting on page K-7](#), describes in detail how the Basic Information section of a return should be completed

Basic Information

- Complete the required basic information using the first page of the client-completed [Form 13614-C, Intake/Interview and Quality Review Sheet](#), plus last year's return. Information about the taxpayer(s) and any dependents then flows from the Basic Information section to other pages in TaxSlayer.
- TaxSlayer won't allow work on other parts of the return until the Basic Information section is completed

FILING STATUS

- Click to select the correct filing status. If you are unsure, you have options:
 - [Pub 4012, page B-1](#), has a decision tree for determining filing status; [page B-2](#) is a six-question interview that also can be used.
 - Use the Tax-Aide tri-fold Qualifying Child / Qualifying Relative resource tool; this is especially helpful for Head of Household and Qualifying Widow(er) statuses
 - Online, you can use the IRS "Interactive Tax Assistant", at [irs.gov/uac/Interactive-Tax-Assistant-\(ITA\)-1](https://irs.gov/uac/Interactive-Tax-Assistant-(ITA)-1) (select "What is My filing Status")
 - [Pub 501, Exemptions, Standard Deduction, and Filing Information](#), is the authoritative source.
- In TaxSlayer, you have the option of clicking to the Filing Status Wizard (blue button, right side). ***Because the result may or may not be correct, using this wizard is not recommended.***
- **Warning:** TaxSlayer has less internal verification than TaxWise of the selected filing status. For less common situations, the preparer – and reviewer – should use extra care in determining the filing status.
- **Note:** If you change the filing status, *TaxSlayer erases all information you entered in the State Section of the tax return.* So if there are any doubts about a filing status, these are best resolved sooner rather than later.

Married

- An individual is "married" if they are married under domestic or foreign law as of December 31
 - The IRS considers someone to be married unless there is a court decree for legal separation, including separate maintenance, or the marriage is permanently dissolved by divorce or death.
 - If there is a court decree for legal separation as of year-end, individuals must file as "Single" or, with a qualifying dependent, as "Head of Household".
 - Rules for determining filing status apply equally to common-law marriages which were established in a state that recognizes this type of marriage.
 - **CA Note:** A common-law marriage cannot be created by consent or cohabitation within California's boundaries; California does not recognize such situations as creating a legal marriage. But it does recognize common-law marriages created in other states.
 - Filing rules are not affected if the spouse resided outside of the U.S. during the tax year
 - Filing rules are not affected if the spouse does not have a Social Security number or ITIN,
- Married persons must file as MFJ, MFS, or HoH; they not eligible to file as Single
- If the spouse is a nonresident alien, an election can be made for the spouse to be treated as a resident, in which case the spouse's worldwide income must be included in the return. If the taxpayers wish to make this election, the return is **out-of-scope** and they go to a paid preparer or use tax-preparation software.

Married Filing Separately

- If the taxpayer has a court decree for legal separation, at year-end, the filing status must be either Single or HoH.
- For a taxpayer who is **not** legally separated, before deciding that the filing status should be MFS, make sure the taxpayer does not qualify as HoH, which is more advantageous
 - To be qualified for the HoH status, the person must meet all five tests shown on the right side of the decision tree on [page B-1 of Pub 4012](#)
 - The decision tree is also the last page of AARP Foundation's "Resource Tool for Tax Counselors" (laminated tri-fold), available at the OneSupport Help Center (go to Tax Training, then Tools; click on "Determining Tax Benefits For A Qualifying Child Or Qualifying Relative 2016-07-11").
- **CA Note:** In California, a community property state, Tax-Aide can prepare a return as MFS **ONLY** when all four of the following conditions are met:
 - The couple has separated, has lived apart the entire year, there was no intention to reconcile throughout the tax year, AND there continues to be no intention to reconcile
 - There was no comingling of funds
 - The name and Social Security number or ITIN of the spouse is available (or spouse is a non-resident alien)
 - Preparation of the return is approved by the Local Coordinator

Head of Household

- Normally a person filing as HoH is not married. But a married person **can** file as HoH rather than MFS if they meet certain tests as described in the section immediately above.
- **CA Note:** California requires an additional form, CA Form 3532, be filled out for those filing as HoH.
 - Failure to complete the form *will not* generate an error when starting the e-File section
 - The page for entering information is at State Section > Basic Information > **Complete California Form 3532 (Head of Household)**
 - The page asks for the number of days that the qualifying person lived with the taxpayer. In the case of a birth and/or death of that person during the tax year, enter “365” as the number of days.
- **CA Note:** If the taxpayer cannot file as HoH in 2016 because the qualifying relative for HoH died in 2014 or 2015, **and** the taxpayer was at least 65 years old at year-end, see the Senior Head of Household Credit Code 163 CA Form 540, Page 2, Line 43-45 section, on page **86**, below.
 - **Note:** This is a non-refundable credit. If CA Form 540, Page 2, line 34, “Tax”, is zero, then there is no point in adding the credit to the CA return.

Qualifying Widow(er) With Dependent Child

- If the taxpayer has a dependent child or stepchild, and the spouse died in 2014 or 2015, the taxpayer can file in this status in 2016. It preserves the benefits of filing as MFJ.
 - QW status requires that the taxpayer *did, or could have* filed as MFJ for the year of the spouse’s death.

PERSONAL INFORMATION

Names

- Enter Taxpayer’s first name(s), initial, and last name as shown on the Social Security card, prior year return, Social Security statement, etc. A hyphen can be entered for the *last* name; for the first name, use a blank space.
 - If the taxpayer provides the prior year’s return, use the name as entered and successfully filed last year, unless the taxpayer has notified the Social Security Administration (SSA) of a change in name (for example, because of a marriage)
 - If the SSA has been notified, use the new name in the tax return, and put information about the old name into a note (see page **8**, above)
 - If the taxpayer has **not** notified the SSA about a name change, or is unsure, use the prior name, but put information about the new name into a note (see page **8**, above)
- When the return is e-filed, the IRS checks the first four characters of the last name against their 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 (for example, 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 last names as shown on the Social Security card or ITIN letter into a note (see page **8**, above), for use by the ERO in case the last name causes an e-file reject
 - Examples of how to determine the last name of a taxpayer are in Pub 4012, starting on [page K-5](#)
- For MFJ returns, TaxSlayer automatically enters the Spouse’s last name as being the same as the Taxpayer. If it is different, then change it.
- **CA Note:** If the last name of the taxpayer (or, if a MFJ return, the spouse) has changed from the prior year tax return, enter that information in the State Section (Basic Information > Additional Personal Information)

Date of Birth

- If an age-dependent credit is claimed, the IRS will check this date against the IRS records
- If the taxpayer is 69 to 71 years old in 2016 (that is, was born between 1945 and 1948), and has Form 1099-R income from an IRA, 401k, or similar source, review RMD requirements with the taxpayer.
 - If they do not have any forms showing income subject to an RMD, *ask if they have any such accounts*, because the taxpayer may not be aware of the requirement to take distributions at age 70½.
 - More information about the RMD requirements and penalties can be found below, in the 5329 Part IX – RMD Not Taken section, on page **74**

Spouse Social Security Number

- See Starting a New Return, above, page **11**, for acceptable means of SSN or ITIN verification for a spouse

Basic Information

- o **Note:** ITINs with middle digits of 78 and 79 (for example, 9NN-78-NNNN) *expire* as of January 1, 2017. If the client has such an ITIN, see the section Individual Taxpayer Identification Number (ITIN) on page **106**
- For MFS returns, if in scope, where the spouse's SSN is not known, enter 111-00-1111. The return must be paper filed; write "unknown" wherever the spouse's SSN appears on the Form 1040 and related forms.
- If the spouse has neither an SSN nor a valid ITIN, the taxpayer may file a Form W-7 with the tax return
 - o The return must be paper-filed; after the Basic Information section is completed, create a note (page **8**) saying that, and why
 - o In TaxSlayer, the first page for W-7 information (asking the reason for filing the W-7) **must** be completed to avoid an error message.
 - In TaxSlayer, the page is at Federal Section > Miscellaneous Forms > **Application for ITIN (Form W-7)** [not reachable via the search box]
 - Instructions for the form can be found at irs.gov/pub/irs-pdf/iw7.pdf; note the requirement for the taxpayer to provide supporting documentation when the form is submitted
 - If one or more fields on the printed Form W-7 are blank, because a question(s) was not answered in TaxSlayer, tell the taxpayer that they must fill in these fields, manually, before submitting the Form W-7 with the tax return.

Occupation(s)

- Complete as appropriate – RETIRED, UNEMPLOYED, and STUDENT are acceptable
- DECEASED is the appropriate entry if the Taxpayer or Spouse died during or after the tax year
 - o (See the next section for more entries for a deceased taxpayer or spouse.)

Other Personal Information

- **CA Note:** If checked that the taxpayer (or, for a MFJ return, the spouse) can be claimed as a dependent on someone else's return, also enter that information in the State Section (Basic Information > Additional Personal Information)
- "Student" means a **full-time** student
 - o A full-time student is a person who was enrolled for some part of at least five calendar months (which need not be consecutive) in a given calendar year, where the enrollment was for the number of hours or courses considered full-time attendance by the school that the student attended.
- Determine if the taxpayer and/or the spouse qualify as blind
 - o If so check the appropriate boxes
 - o A letter from a physician or optometrist should be kept by the taxpayer if this is the first time they qualify as blind
- If the taxpayer or spouse is deceased, check the box and enter the date of death
 - o The date of death is matched against the IRS's database (obtained from the SSA) – a mismatch may cause an e-file to be rejected
 - Note: Tax-Aide does not require clients to provide a death certificate.
 - o **Do not add "DECD"** in a name field.
 - o Advise the client that processing time by the IRS will be longer than normal for deceased taxpayer returns.
 - o **Note:** If the return is filed by other than a surviving spouse and there is a refund due, then either **Form 1310** or a court certificate (see instructions for Form 1310) must be included with the refund.
 - The page **Form 1310 for Refund Due a Deceased Taxpayer** is in the Federal Section, on the **Miscellaneous Forms** menu page.
 - The return can be e-filed but the Form 1310 must be mailed; create a note (per page **8**) saying that.
 - o **CA Note:** Additional information is required in the State Section – see the section Deceased Taxpayer or Spouse, on page **81**, below
- If the taxpayer has indicated that they want to direct an amount to the Presidential Election Campaign Fund (on the Intake/Interview sheet, page 3, Part VII, question 1), then check the appropriate box(s).
 - o This has no impact on the calculations for taxes owed or refunds due.
- If the taxpayer or spouse served in a Combat Zone during the current tax year, the return is **out-of-scope** for regular Tax-Aide sites – refer the taxpayer to a military site, or suggest that the go to a paid tax preparer or prepare their own return using tax-preparation software

Mailing Address

- Current mailing address – enter the taxpayer's street address (fractions allowed) or post office box

- The “Apartment” field is limited to letters and/or numbers and cannot be more than 6 characters. If necessary, put information like “Space 203” (for a mobile home) in the main address field
- ZIP code – entering the ZIP code automatically fills the city and state, but you may need to change the city if the ZIP code is shared by multiple cities
 - If entering the ZIP code doesn’t automatically fill the City and State fields, recheck the ZIP code that you entered
- **CA Note:** If the address has changed from that on the prior year tax return, enter that information in the State Section (Basic Information > Additional Personal Information)
- **Warning:** if a TaxSlayer page that has the taxpayer address (for example, the **W-2** page) has been used, and subsequently the address in the **Personal Information** page is corrected, the correction *will not affect the TaxSlayer pages that have already been used*. In this example, the **W-2** page would need to be edited again to change the incorrect address on that page.

Telephone Numbers

- *TaxSlayer requires a telephone number for the taxpayer in order to complete the Personal Information page.*
 - If the taxpayer does not have a phone or is unwilling to provide a number, ask if they will give us the phone number of a friend, relative, or neighbor, “just in case”.
 - If the phone number entered is not that of the taxpayer, also create a note (see page 8, above).
- A phone number is important because Tax-Aide may need to call the taxpayer when a return is rejected, or where we discover, belatedly, that there is an error in the return. This is rare, but it does happen.
- The Intake/Interview sheet asks for one phone number for the taxpayer and one for the spouse.
 - If these are the same, enter the number as the Daytime Telephone number.
 - If they are different, or if a taxpayer provides both a regular phone number and a cell phone number, enter one as the Daytime Telephone number and the other as the Secondary Telephone number.

DEPENDENTS AND QUALIFYING CHILDREN

- This section should include individuals who are supported but do **not** live at the taxpayer’s home. Specifically, a parent doesn’t need to live with a taxpayer in order to be the taxpayer’s dependent, and a taxpayer can have a child whom the taxpayer is supporting but who lives with the other parent.
- This section also should include persons who are not dependents, because they provide more than half their support, but qualify the taxpayer for benefits such as Earned Income Credit
- TaxSlayer automatically enters the Taxpayer’s last name as the dependent’s last name. If that is incorrect, then change the last name.
- Enter dependents in the same sequence as on the Intake/Interview sheet.
- Checking the box for “Check if the dependent does not have an SSN/ITIN/ATIN”, and then checking “Yes” for “This dependent will be completing a Form W-7, Application for ITIN:” will require completing a Form W-7 within TaxSlayer.
 - The return **must be paper-filed** - create a note (page 8) saying that.
 - In TaxSlayer, the first page for W-7 information (asking the reason for filing the W-7) **must** be completed to avoid an error message.
 - In TaxSlayer, the page is at Federal Section > Miscellaneous Forms > **Application for ITIN (Form W-7)** [not reachable via the search box]; finish the Basic Information section before going there
 - Instructions for the form can be found at [irs.gov/pub/irs-pdf/iw7.pdf](https://www.irs.gov/pub/irs-pdf/iw7.pdf); note the requirement for the taxpayer to provide supporting documentation when the form is submitted
 - If one or more fields on the printed Form W-7 are blank, because a question(s) was not answered in TaxSlayer, tell the taxpayer that they must fill in these fields, manually, before submitting the Form W-7 with the tax return.
- Relationship – choose from the drop-down list
 - For a great-grandchild, use “Grandchild”; for a great-niece (or grandniece), use “Niece”; for a great-nephew (or grandnephew), use “Nephew”
 - If an in-law, use “other”. An in-law is never a qualifying child, but *can* be a qualifying relative for things like HoH status, education credits, and child and dependent care.
 - **CA Note:** In California, someone aged 21 or older is no longer a foster child. If that child is disabled, the foster parent needs to formally adopt the child in order to claim the him/her as a qualifying child
- Number of months the dependent lived in the home – choose from the drop-down list

Quick File

- o Use “12” for dependents who were born or died during the tax year
- In the “Check all that apply” section:
 - o A full-time student is a person who was enrolled for some part of at least five calendar months (which need not be consecutive) in a given calendar year, where the enrollment was for the number of hours or courses considered full-time attendance by the school that the student attended.
 - o If the dependent is 16 years or older (for the 2016 return, this would mean being born in the year 2000 or earlier), **ask** the taxpayer if the dependent is married or not; do not assume unmarried status
- **Resources for determining if someone is a qualifying child or qualifying relative (a “dependent”), and whether that person can be used to claim EIC:**
 - o [Pub 4012, Tab C, starting on page C-3](#)
 - o AARP Foundation’s “Determining Tax Benefits for a Qualifying Child or Qualifying Relative (for Form 1040, 1040A and 1040EZ)” (laminated tri-fold, 2013), available at the OneSupport Help Center (go to Tax Training, then Tools; click on “Determining Tax Benefits For A Qualifying Child Or Qualifying Relative 2016-07-11”)
 - o The Dependent Qualification Calculator at cotaxaide.org/tools
 - o The IRS “Interactive Tax Assistant”, at [irs.gov/uac/Interactive-Tax-Assistant-\(ITA\)-1](http://irs.gov/uac/Interactive-Tax-Assistant-(ITA)-1) (select “Who Can I Claim as a Dependent”)
- **Note:** More questions relating to the EIC, such as “Is this child currently, or intended to be, a qualifying child on any other individual's tax return?” are asked on the EIC Information page of the e-File section of TaxSlayer; see page [91](#), below.

OTHER INFORMATION ON PAGE 1 OF THE INTAKE/INTERVIEW SHEET

Page 1 of the Intake/Interview sheet has some information that isn’t entered in the Basic Information section of TaxSlayer, but may require action.

Identity Theft

- If a taxpayer, spouse, or dependent has experienced identity theft, and has previously worked with the IRS to fix this, the IRS will issue a CP10 letter with a PIN for filing a return; the taxpayer should have checked “Yes” for box 11.a. of the Intake/Interview sheet, “Been a victim of identity theft?”
- Enter the PIN on the **IRS Identity Protection Pin** page. [Federal Section > Miscellaneous Forms > IRS Identification Pin]
 - o If the taxpayer received an IP PIN but cannot find it, have the taxpayer call the IRS ID Theft hotline, 800-908-4490.
 - If the hotline provides a new IP PIN, use that; the return can be e-filed
 - If no new IP PIN can be issued, then the return must be paper-filed (create a note - page [8](#) - saying that); advise the taxpayer to follow any instructions given by the hotline.
- More information can be found on [page P-4 of Pub 4012](#), “Identity Theft Job Aid for Volunteers”.

Disabled Taxpayer or Spouse

- If the taxpayer checked “Yes” for box 6.b. or 9.b., “Totally and permanently disabled”, of the Intake/Interview sheet, then the taxpayer may be eligible for the Schedule R tax credit because of that disabled status. (Those 65 years and older are eligible for the credit as well, if low income.)
 - o Detailed information on this credit, including other criteria such as a low income, is on page [72](#)

Child Adoption

- Taxpayers who adopted a child in 2016 (box 11.b. of the Intake/Interview sheet, “Adopted a child?” is checked “Yes”) can potentially receive significant tax benefits from doing so. They can reduce their income, if they received employer compensation, or can get both a federal and state tax credit, if they had adoption expenses that weren’t reimbursed. However, both [Form 8839, Qualified Adoption Expenses](#), and the CA Credit for Child Adoption Costs (Code 197) are **out-of-scope**; accordingly, there may be significant advantages for such a taxpayer to go to a paid tax preparer or use tax-preparation software.

QUICK FILE

- Except for using a Taxpayer Profile (see page [11](#), above), the fastest way to complete a return is probably to create a Quick File – a list of needed TaxSlayer pages for completing the Federal Section of the return.

- There is only one way to get to the **Quick File** page: click on the taxpayer name, or the downward-pointing symbol to the right of the taxpayer name; then from the **Tools** drop-down list, select “Quick File”
 - **Note:** The name of the taxpayer appears (at the upper left of the screen) only **after** the Basic Information section is completed.
- A taxpayer profile is actually closely related to the Quick File concept: selecting a taxpayer profile, with its list of pages, builds an identical Quick File list.
- If you’ve selected a taxpayer profile, or had one assigned as the default, and want to modify it on the **Quick File** page, then exit the taxpayer profile process as soon as it starts, by going to the **Quick File** page, via the taxpayer name (**Tools**) drop-down list.
 - TaxSlayer will, *after* all Basic Information has been entered, start a sequence of opening each TaxSlayer page in the profile, in the sequence listed in the profile. When you see that first page, *exit*.
 - While TaxSlayer will put a checkmark on that first page, Quick File will *still* begin with that first page
- To add a page to a Quick File list, begin typing the page name or description in the search box. Then select the TaxSlayer page you want.
 - For example, if you type “in”, the first item in the drop-down list below the search box will be “1099-INT, Interest Income”. If that’s what you want, click on that item, and you’ll see it added to the list on the right side.
 - The section Organizing Your Work, on page 10, above, shows what text to type (see the underlining) for the most common supporting documents that clients have.
- To delete a page you don’t want, move your pointer over the small trashcan icon for that page. When the pointer is over the icon, it turns red; clicking on the red icon deletes the page from the list.
 - Deleting a page from the Quick File list doesn’t affect any data that was entered into that page; the Quick File list is only for *navigation*.
- The TaxSlayer pages on the Quick File list are always pages where you can enter data. Sometimes what is selected in Quick File will take you to a different place than selecting that same item in the regular search box
 - For example, in Quick File, “1099-DIV” gets you directly to **Enter your Dividend Income (Form 1099-DIV)**, a data entry page. But in the regular search box, it gets you to the **Interest and Dividend Income** menu, from which you have to click three times to get to the data entry page.
- When you have completed your list, click “Continue”. TaxSlayer will take you through the TaxSlayer pages, in the order you selected them. You can exit the process at any time, and return later to Quick File to continue it, though when you do, it will start at the beginning of the list, again.
 - As mentioned above, you should delete any unneeded pages from the Quick File list. If you happen to miss one, and are shown that page during the Quick File process, click “Cancel” instead of “Continue” to avoid the possibility of TaxSlayer inserting a blank form into the return, which could cause an e-file reject
- **If you need to use the same page twice or more to enter information**, you can’t modify your list to do that, but **there is a workaround**, done as you’re entering information into TaxSlayer pages. [Not needed for W-2s.]
 - For example, you might need to enter information onto two **Form 1099-R** pages. After you enter information into the first TaxSlayer page, click “Continue”, as usual.
 - Then immediately click “Back”.
 - Click the green “+Add” button
 - Now you’re on the second of that TaxSlayer page, ready to enter new information
 - When you click “Continue”, TaxSlayer will take you to the next page in the Quick File list.
 - **Note:** This workaround will *not* work for the final page on the list, if you need that page twice. Instead, after you get the “Congratulations” page, for having finished the Quick File process, use the search box to go to that final page that you want to create for a second time.
- You can go back to the Quick File list at any time you’re working on the return, to add another page to the list. Similarly, you can exit the return without having gone through the entire Quick File, then continue once back in the return. However, although TaxSlayer knows which pages you’ve been at (shown with green checkmarks), **it will send you through the entire list, in sequence**.
 - This doesn’t necessarily take much time – you just keep clicking “Continue” until you get to page you want (the one you just added to the Quick File list).
 - **Note:** If you exit a return and come back to it, TaxSlayer will reorder the Quick File list into 1040 order.
- If a Quick File list has been created with all the pages used for entering information into the Federal Section, the list can be an excellent tool for the person doing the quality review. The reviewer can go to the **Quick File** page, then click “Continue” to go through the list, page by page.

NOTE: The following sections often say “Go to ...”, followed by the name of a TaxSlayer page, which will be in bold. The part of the page name which is underlined is what to type into the TaxSlayer search box to go directly to that TaxSlayer page, as an alternative to using the menu structure.

FEDERAL SECTION - INCOME

Note: [Page D-1 of Pub 4012](#) has a list of income that is *not* taxable and does *not* have to be entered into TaxSlayer.

LINE 7 - WAGES, SALARIES, AND TIPS

Go to the W-2 page [Income > Wages and Salaries (W-2)]

- [Pages D-9 and D-10 of Pub 4012](#) have information on how to enter Form W-2 information into TaxSlayer

Control Number and Verification Code

- Do NOT enter anything in the Control Number field.
- A Verification Code will appear on a relatively few number of Form W-2s for 2016, in a separate, labeled box. The code will be displayed in four groups of four alphanumeric characters, separated by hyphens, as, for example, XXXX-XXXX-XXXX-XXXX.
 - If you see such a code, enter it into the TaxSlayer **W-2** page
 - For 2016 tax returns, an omitted or incorrect W-2 Verification Code will not delay the processing of a tax return

Substitute W-2

- If the taxpayer has not received a Form W-2 by February 15th and has attempted to get a copy from their employer and failed, they can contact the IRS for possible assistance
- If no IRS assistance is possible, a substitute Form W-2 can be used. This requires a pay stub for the last pay period for which pay was received in the tax year, showing cumulative pay and withholding for the year
 - Start a **W-2** page, as usual, but select “This is a substitute W-2”
 - Fill out the rest of the TaxSlayer **W-2** page as usual. Then, when you click “Continue”, TaxSlayer will open a page to collect information that goes on a Form 4852, “Substitute W-2 Form or 1099-R”. After you’ve entered that information, click “Continue”
 - When the return is printed, it will include a Form 4852. That must be signed by the taxpayer and mailed with the return.
- **The return must be paper-filed** - create a note (page [8](#)) saying that, and that signing of the Form 4852 is required
- The taxpayer may need to follow up with the Social Security Administration to get credit for FICA taxes paid; the taxpayer will need to wait until they get a SSA statement that includes the tax year for which the return is being prepared.

Employee Name

- If this is a MFJ return, make sure the “Whose W-2 is this?” question has been answered correctly. (The default is the taxpayer)
- If the employee name on the Form W-2 does not match the name in the **Personal Information** page (for example, because of a name change), it is not possible to change the name on the TaxSlayer **W-2** page to match the paper Form W-2.
 - Make sure that the Social Security number on the paper Form W-2 *does match* the SSN in TaxSlayer; if not, then (assuming that the form does in fact belong in this tax return) see the next *two* sections below.
 - The return should still be e-filed

Employee SSN When Filing Using an ITIN

- If the employee on the Form W-2 is filing using an ITIN, then any SSN on the paper Form W-2 will **not** be valid for that employee
 - TaxSlayer will automatically ask for “ITIN SSN” information. Type in the Social Security number shown on the paper Form W-2
 - This discrepancy does **not** prevent the return from being e-filed.

Employee SSN is Incorrect

- If the taxpayer has a SSN but a different (incorrect) SSN is shown on the paper Form W-2, the employee must request a corrected Form W-2 from their employer
- If a corrected Form W-2 cannot be obtained, do not change the correct SSN on the TaxSlayer **W-2** page to match the incorrect SSN on the paper Form W-2
 - The return will need to be paper-filed and an explanation provided about the erroneous SSN; create a note in TaxSlayer (page **8**) with that information.
- **Note:** A Form W-2 with a blank in the SSN box is invalid. If the taxpayer has such a Form W-2 and cannot get it corrected, the return is *out-of-scope*

W-2 Form - Employer's ID, Name, and Address

- If employer information has been entered into another return **at the same site** during the **current** tax season, TaxSlayer will fill in employer name and address after the employer's identification number (EIN) is entered
 - Make any changes necessary so that the information on the **W-2** page matches the paper copy. (Some employers use the same EIN for W-2s with different employer addresses.)
 - Ampersands (&), hyphens (-), and slashes (/) are allowed in the employer name field
- If the EIN field on the paper Form W-2 is missing
 - Do not create a bogus number or enter a Social Security number for the EIN; that will result in the e-filed tax return being rejected by the IRS.
 - The taxpayer should contact the employer to get a valid EIN (but also see the next section, "Incorrect EIN")
 - If the employer is no longer in business, or the taxpayer is otherwise unable to get a valid EIN, the return **must be paper-filed**; create a note (page **8**) saying that
- **CA Note:** Form W-2s issued by California In-Home Supportive Services (IHSS) in Roseville (EIN 94-2629822) will show the name of the person being cared for (often a relative) as the employer. For such W-2s, if TaxSlayer fills the Employer Name field, that field will almost certainly need to be changed.
 - If the employer and employee (taxpayer) reside in the same home, see W-2 Form - Medicaid Waiver Payments, below, page **24**. Beginning with the 2015 tax year, income on a Form W-2 that meets the criteria for being a Medicaid Waiver Payment **must** be treated as excludible from income.

Incorrect EINs

- Unfortunately, occasionally an EIN is entered incorrectly. After the e-file rejects, the ERO or preparer normally must call the taxpayer to get the correct number. However, it's possible, in some cases, to find the correct EIN online, so that the taxpayer doesn't need to be called.
- The best online sources for EINs are:
 - The EDGAR database of the U.S. Securities and Exchange Commission (SEC) contains financial reports for publicly traded companies. The Form 10-K, a company's annual report to shareholders, has the company's EIN on its first page.
 - The search page is at sec.gov/edgar/searchedgar/companysearch.html. Click "More Options", type the beginning of the company name, select the state, then click "Search". Click on the CIK of the company you think is the best fit, enter "10-K" in the "Filing Type" field, and press [Enter] or [Return]. If one or more 10-Ks are listed, click on the "Documents" button for the one at the top, then on the document identifier (in red). You'll see information labeled "I.R.S. employer identification no."
 - The IRS has a database of registered charitable organizations:
 - At <https://apps.irs.gov/app/eos/>, select the first item [essentially, all organizations], and enter the name [best is a single word, the least common one in the organization's name] plus city and state. Then click "Search".
 - If an EIN that is found isn't very close to the number entered into TaxSlayer, *don't use it*. The taxpayer must be called to get the correct EIN.

W-2 Form - Wages

- Enter information from the paper Form W-2 into TaxSlayer exactly as shown on the paper form, unless otherwise stated below
- The amount entered in box 1 will populate boxes 3 through 6, plus 16 (after the State Name has been selected).
 - If the amounts in boxes 3 through 6 do not match the paper Form W-2, change the amounts on the TaxSlayer page so that everything *does* match.

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- o If the amount in box 1 is subsequently changed, the change *will* affect the amounts in boxes 3 through 6, but it **will not change the amount in box 16, for state wages**.
- o Entering information in box 12 will *not* affect boxes 3 through 6
- o If box 1 shows zero wages, the Form W-2 may be to report sick or disability payment, which is non-taxable. (Look at box 12, for code J.) This is not necessarily a problem –the W-2 should **not** be entered into TaxSlayer, because the return will reject if e-filed
 - *If* there was any federal withholding (box 2), go to the **Other Federal Withholdings** page [Federal Section > Payments & Estimates], enter the amount, and click “Continue”
 - *If* there was any state tax withholding, enter it as described in the section State Tax Withheld, on page **87**, below [and ignore the restriction that the process is not supposed to be used for wages reported on W-2 forms, because this Form W-2 *isn't being entered into TaxSlayer*]
- **Box 7:** Social Security Tips are reported here.
 - o Social security wages (box 3 on the Form W-2) and Medicare wages and tips (box 5) should be the total of boxes 1 and 7: **if there is an amount in box 7**, make sure that you have changed the amounts in boxes 3 and 5 on the TaxSlayer page to match the paper Form W-2
- **Box 8, Allocated Tips:** When an amount is entered here, TaxSlayer automatically adds Form 4137 to the tax return, and computes the Social Security and Medicare tax due (Line 58 of the Form 1040)
- **Box 10:** Dependent Care Benefits from the employer are reported here. It is VERY important that this number, if present, is entered accurately, because it directly affects other benefit calculations
 - o If you enter an amount in box 10, then, after clicking “Continue”, TaxSlayer will display a message: “In Box 10 you entered an amount for Dependent Care Benefits. Please be sure to complete a Form 2441 for this return”
 - o If dependent care benefits paid by the employer are not fully offset by expenses, as entered on the **F2441 - Child Care Credit - Page 1** page, the difference will be included as income on Form 1040, Page 1, line 7. See the section Line 49 - Credit for Child and Dependent Care Expenses below, page **67**
- **Unreported tips:** If the W-2 is for a job that is likely to have tip income as part of employee compensation, see W-2 Form - Tip Income, below, page **25**
- **Box 12:** If a code in box 12 is **out-of-scope**, the entire return is also **out-of-scope**.

Box 12 Code	Description
A, B, M, N	Uncollected amounts, including Social Security or Medicare taxes, which TaxSlayer will correctly carry to Form 1040, Page 2, Line 62
C	Taxable cost for group term life insurance. Quite common, does not change anything as it is already included in box 1 wages
D, E, F, G, H, S	Elective deferrals that can make the return eligible for the Retirement Savings Contribution Credit (Line 51 of the 1040, on page 71 , below); create a note (page 8) as a reminder to determine if this credit should be give. <i>If code G is in box 12, then box 13, Retirement plan, must be checked on the W-2 page, even if unchecked on the paper Form W-2</i>
J	Non-taxable sick pay – see page 21 , below
K	20% Excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements. Not taxable, but if Form 2106 (out-of-scope except those with Military certification) is filed, the amount would go on <i>line 7</i>
P	Excludable moving expenses. If taxpayer’s deductible moving expenses are not greater than this amount, Form 3903 (out-of-scope except for those with Military certification) does not need to be filed
Q	Non-taxable combat pay. Optionally used to calculate Earned Income Tax Credit - TaxSlayer will pick the correct option. Out-of-scope except for those with Military certification
R	Employer contributions to an Archer Medical Savings Account (MSA) – out-of-scope
T	Adoption benefits – out-of-scope
V	Income from the exercise of nonstatutory stock options (informational – income is included in box 1)
W	Employer contributions to an employee’s <u>Health Savings Account</u> (HSA), making the return out-of-scope unless both the preparer and reviewer have HSA certification. Also, further action is needed – see information on the next page. An entry here is automatically added by TaxSlayer to Form 8889 in the tax return; also requires CA adjustment . (See page 54 .)
Y	An elective deferral that is NOT eligible for Retirement Savings Credit
Z	Income under section 409A on a nonqualified deferred compensation plan

Box 12 Code	Description
AA, BB, EE	Designated Roth contributions under a section 401(k), 403(b), or 457(b) plan. <i>If code EE, then box 13, Retirement plan, must be checked on the W-2 page, even if unchecked on the paper Form W-2</i>
DD	Cost of employer-sponsored health coverage – For 2014 through 2016, any employer coverage is MEC for the ACA (but you still need to determine which individuals were covered and the months of coverage)

- If there are more than **four** box 12 entries, there is a workaround:
 - Enter just the first four entries on a TaxSlayer **W-2** page, along with all other information on the paper Form W-2.
 - Reduce the amount in box 1, “Wages, Tips”, by \$1. [The change will not affect amounts in any other boxes of the TaxSlayer page.]
 - Click “Continue” to save information entered in the **W-2** page
 - Add a second **W-2** page.
 - Enter the same employee and employer information as on the first **W-2** page
 - In box 1, “Wages, Tips”, enter \$1. Then delete that amount from boxes 3 and 5. (If it appears in box 16, delete it there as well.)
 - In box 12, enter the information you did not have space to enter on the first **W-2** page.
 - Click “Continue” to save information entered in the second **W-2** page
 - As a precaution, the program will ask you if you are sure you want to create a **W-2** page with the same EIN as a previously created **W-2** page. Check the box “Yes, I want to save this W-2 form”, and again click “Continue”
 - When the return is sent electronically to the IRS, the program will add together the information on the two **W-2** pages.
- Returns with Code W, Health Savings Account (HSA) Employer Contribution, **must be prepared and reviewed by counselors who have HSA certification**
 - Employer contributions to an HSA are not federally taxable. They are reported on Form 8889, which requires additional information. After completing the entry of Form W-2 information, and clicking “Continue”, go to the **Form 8889 - Health Savings Account** page [Federal Section > Deductions > Enter Myself > Adjustments > Health Savings Account]
 - Specify whether coverage is self-only or family, and the number of months that the taxpayer was an eligible individual [eligibility requires being covered by a high deductible health plan (HDHP)]
 - If the taxpayer’s documents don’t include a [Form 5498-SA](#), ask if they had made any *contributions* themselves during the tax year – if so, this needs to be entered, as discussed on page [54](#) below
 - If the taxpayer’s documents don’t include a Form 1099-SA, ask the taxpayer if they received any *distributions* from the HSA trustee. If so, see the section HSA Distribution, on page [51](#), below
 - **CA Note:** CA does not recognize HSAs – see Health Savings Accounts in CA, below, page [84](#)
- Box 13: Check the applicable boxes to match what is on the paper Form W-
 - The Retirement Plan box determines IRA eligibility rules
 - **Warning:** Some employers fail to check this box when they should. If you see “G” or “EE” in box 12 of the Form W-2, check the retirement box on the TaxSlayer **W-2** page.
 - If the Statutory Employee box is checked, then, after “Continue” is clicked, TaxSlayer requires that the income be moved to a Schedule C. If a Schedule C hasn’t yet been set up, it can be (with basic information, only) at this point, by clicking on “Create a Schedule C”. Alternatively, “Continue with Return” can be selected, and the Schedule C can be completed later.
 - The employee can report expenses on that Schedule C, offsetting the reported income
 - The income entered on the **W-2** page will *not* be included on line 7 of the Form 1040
- Box 14: Enter the code(s) and dollar amount(s) shown on the paper Form W-2
 - If there is an entry for a retirement contribution in this box (for example, RET TS), this might be an elective contribution. Ask the taxpayer if this is the case. If so, select “Retirement (Not in Box 12) – Carry to Form 8880.” (See Line 51 - Retirement Savings Contribution Credit on page [71](#), below)..
 - **CA Note:** In TaxSlayer, **CA SDI** (which sometimes appears as just “SDI” on the paper Form W-2) is entered in box 14 of the TaxSlayer page.
 - TaxSlayer should carry the amount to line 5 of Schedule A, as a potential income tax deduction if itemizing.

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- o **CA Note:** California Voluntary Plan deductions (shown as VD, VPDI, or VI on the paper Form W-2) are also entered in box 14
 - **Note:** VD, VPDI, or VI are included in determining excess SDI contributions, but are never carried to Schedule A, because none is considered a tax.
- o **CA Note:** The maximum amount subject to SDI for 2016 is \$106,742, for a maximum of \$961 of withholding. (The 2016 rate is 0.9%, the same as in 2015.)
 - If the maximum is exceeded, TaxSlayer properly computes the allowable credit, which goes on the CA return (CA Form 540, Page 3, line 74)
 - **Note:** TaxSlayer does not consider VD/VPDI/VI deductions when calculating the maximum amount. *As a workaround, if this TaxSlayer issue causes the incorrect amount to be placed on line 74 of the CA 540, do the following:* (a) on the **W-2** page, change VD/VPDI/VI to “SDI”; (b) if the taxpayer is itemizing on the federal return, and box 5 of Schedule A uses state taxes paid rather than general sales tax, reduce the amount of a different type of tax paid – for example, real estate taxes – to compensate for the extra added to the box 5a amount, and (c) if another type of tax was reduced on Schedule A, then make an adjustment – positive – to the CA itemized deduction amount – see Deductions Treated Differently by CA, on page **84**, below.

W-2 Form - State Information

- Box 15 Enter the State ID number without dashes or spaces
 - o The State ID number is NOT the same as the federal ID number
 - o The State ID is required, whether or not state tax was withheld
 - **CA Note:** If the State ID is blank on the paper W-2, enter six nines (999999) in TaxSlayer
 - o **CA Note:** Form W-2s issued by California In-Home Supportive Services (IHSS) in Roseville (EIN 94-2629822) will show the name of the person being cared for (often a relative) as the employer. A **unique** CA tax ID is assigned to that person, as the employer; for such W-2s; if the State ID number is automatically filled by TaxSlayer, it is almost definitely **wrong** and should be manually changed.
- Box 16: TaxSlayer automatically fills in box 16 to be equal to box 1. But state wages sometimes – though not frequently – are different than federal; if so, change box 16 to match the paper Form W-2
 - o **CA Note:** TaxSlayer does not automatically carry the state wages difference to CA Schedule CA, line 7. Manually enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below.
- **CA Note:** Box 19 (Local Tax Paid)/box 20 (Local Name): If the paper Form W-2 has entries for CASDI, SDI, VPDI, VP, or VI in these boxes, **do not enter them into boxes 19 and 20 in the TaxSlayer page**. Instead, enter this information into box 14 (see above)

W-2 Form - Medicaid Waiver Payments

- CA’s In-Home Supportive Services (IHSS) (EIN 94-2629822) pays for the in-home care of certain needy individuals and reports the payments on Form W-2 (the W-2 payer’s address is in Roseville; the payer’s name is the person being cared for)
- In [Notice 2014-7](#), the IRS clarified that IF such payments represent Medicaid Waiver Payments or difficulty of care payments, then payments must be excluded from income, and provided additional guidance in its [February 23, 2015, Q&A](#). See the “Difficulty of Care” section of [Pub 525, Taxable and Nontaxable Income](#), for more details
 - o To qualify for exclusion, the care provider and the care recipient **must** live at the same home
 - o **For tax returns – of any year – prepared by Tax-Aide after January 1, 2016, such payments must be excluded from income**
- If the taxpayer is required to exclude the income, then IHSS should have reported zero wages in box 1 of the Form W-2. However, Form W-2s for 2016 will still have the full wage amount.
 - o **Note:** If zero wages were reported, **and** federal and/or state taxes were reported on the W-2 as being paid, then the return must be paper-filed; the IRS e-file system will not accept **W-2** forms that report zero wages. Create a note (page **8**) saying that.
- If the taxpayer is required to exclude the income, but the Form W-2 does include that income in box 1, then check the Medicaid Waiver checkbox on the **W-2** page. **Note:** As of the print date of this manual, the addition of this checkbox was pending.

W-2 Form - Indian Tribal Income

- Tribe members often work on tribal land – for example, at a casino, and receive a Form W-2 for that work

- Tribal income is always taxable on the federal return
- **CA Note:** Indian tribal income is exempt from CA taxes ONLY WHEN the recipient is (a) an enrolled member of a federally-recognized Indian tribe; (b) living on that tribe's land; and (c) the income was earned or derived from sources within that tribe's land
 - If income is exempt from CA taxes, reduce CA income as described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below.
- **Note:** If there is any question to the definition of "living on" tribal land, see [FTB Legal Ruling 2015-01](#)

W-2 Form - Tip Income

- Employers can report tips on Form W2 in one of three ways:
 - They can include tips reported by employees ("reported tips") in the taxable wages amount, in box 1 of Form W-2
 - Alternatively, they can put tips reported by employees into box 7 ("Social Security tips"), which when added to box 3 should equal box 1, Wages.
 - Or they can report "allocated tips" in box 8. This amount is calculated by the employer, based on sales or on pooled tips or information other than the tips reported as received by the employee.
- **There may be unreported tips.**
 - Unreported tips can occur because:
 - The employer did not report any tips in boxes 1, 7, or 8
 - The amount of tips reported by the employer on the W-2 understated the amount actually received by the taxpayer
 - There is a box on the TaxSlayer **W-2** page to report unreported tips - below box 10
 - When an amount is entered in this box, TaxSlayer automatically adds Form 4137 to the tax return, and computes the Social Security and Medicare tax due (Line 58 of the Form 1040)
 - *If* the taxpayer has detailed records of tips received, *and* there are one or more months when the tips received (including those paid to the employee by the employer, either directly or as part of the employee's paycheck), were less than \$20 for that month, then total the amounts for such months, and enter the amount in the first box of the **Form 4137 Social Security and Medicare Tax on Unreported Tip Income** page [Federal Section > Other Taxes > Tax on Unreported Tip Income]

W-2 for a Student

- If a Form W-2 was received for a student (usually for pay as a Teaching Assistant), the entire amount is taxable and cannot be reduced by student-related expenses

Household Employee Income

- A household employee who did not receive a Form W-2 because the employer paid that person less than \$2,000 for all of 2016 must still report that income on their tax return
- Household worker income is reported on Schedule C ONLY WHEN the taxpayer has an independent business
- If the income is not reported on Schedule C, then it is reported as part of Line 7, Wages, salaries, tips, etc., on the Form 1040
 - Enter the amount on the **Enter Household Employee Income** page [Federal Section > Income > Enter Myself > Other Income > Other Compensation > Household Employee Income]
 - The total reported can be from multiple employers, as long as each paid less than \$2,000

Work Release or Penal Income

- Income earned while an inmate (even if on work release with a private employer) is not considered earned income for the purposes of EIC, Additional Child Tax Credit, or Dependent Care Credit
- To **exclude** such income from being considered for those credits, enter the amount on the **Prisoner Earned Income** page [Federal Section > Enter Myself > Other Income > Other Compensation]

LINE 8 - TAXABLE INTEREST

Foreign Accounts or Assets

- If, looking at a 1099-INT or similar form, the taxpayer appears to have foreign accounts or foreign financial assets:
 - Discuss with the taxpayer whether the accounts are in fact (look at payer information)
 - If there were one or more foreign accounts, ask the taxpayer what was the highest (approximate) value during the year for all accounts, combined

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- If the total account value was more than \$10,000 at any time during the year, that requires FBAR filing of a FinCen 114 form, which is *out-of-scope*, making the return *out-of-scope*
- Otherwise, go to the **Did you earn interest from a bank in a foreign country?** page [Income > Enter Myself > Interest and Dividends > Interest and Dividend Income] and check *only* the first box
- If there were one or more foreign accounts, ask whether the taxpayer received a distribution from, or was the grantor of, or transferor to, a foreign trust. If yes:
 - Check the second box
 - Inform the taxpayer of the requirement to file, *separately from the tax return*, [Form 3520, “Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts”](#)
 - Create a note (page 8) that you informed the taxpayer of the requirement to file Form 3520

Regular Interest Income on Form 1099-INT

- **Note:** Mutual funds report their distributions as dividends, on Form 1099-DIV, even if they originate from interest earned on a fund’s portfolio

Note: Beginning in 2015, Form 1099-INT includes box 10 for “Market discount”, box 11 for “Bond premium”, and a “FATCA filing requirement” checkbox to the left of box 12. If there is an entry in box 10 and/or box 11, and/or the FATCA checkbox is checked, then the return is *out-of-scope*. Similarly, if there is an entry in box 12 and/or 13, involving bond premiums, the return is *out-of-scope*.

- Go to the **Interest Income** page [Income > Enter Myself > Interest and Dividends > Interest or Dividend Income > Interest Income, Form 1099-INT]. Each 1099-INT is entered separately
 - **Note:** Institutions that have paid less than \$10.00 in interest during the tax year are not required to issue a 1099-INT. If the taxpayer reports receiving interest of between \$0.50 and \$9.99, use the **Interest Income** page to record this income, even though there is no 1099-INT
- Entering information from a Form 1099-INT is described on [pages D-12 through D-14 of Pub 4012](#).
 - *If the taxpayer has children, make sure that the SSN on the 1099-INT is not for one of them.*
 - Boxes 1 and 2: Enter where specified on the TaxSlayer page
 - The amount in box 2, “Early withdrawal penalty”, is carried to Form 1040, Page 1, line 30
 - Box 3: Enter where specified on the TaxSlayer page
 - Part of this amount is *potentially* excludable from federal taxation: see [Form 8815, “Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989”](#). However, that form is *out-of-scope* for Tax-Aide (do **not** follow Pubs 4012 and 4491 with regard to this form). The return is *in-scope* if the taxpayer is willing to *not* claim any exclusion that might be calculated using Form 8815; otherwise, the taxpayer should use a paid tax preparer, or tax software, to file a return that includes Form 8815.
 - **CA Note:** Interest income from U.S. Savings Bonds, Treasury Bonds and other direct obligations backed by the U.S. Government are not taxed by California and include federal Land Banks and Federal Home Loan Banks. This does **not** include interest from Fannie Mae or Freddie Mac. **Any amount in box 3 of the Form 1099-INT should also be entered into the box on the TaxSlayer page that is labeled “Amount of interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return.”**
 - Box 4: Enter where specified on the TaxSlayer page
 - Box 5: This amount can be deducted on the “Other expenses” line of Schedule A, subject to the 2% limit, if the taxpayer is itemizing
 - Boxes 6: An amount entered here will go to Line 48, Foreign Tax Credit, on Form 1040, as discussed on page 67
 - Box 8: Tax-exempt interest is entered on a separate TaxSlayer page – see the section immediately below
 - Box 9: The private activity bond (PAB) amount is entered on the **Form 6251 - Alternative Minimum Tax** page [Federal Section > Other Taxes > Alternative Minimum Tax], on the fourth line, “Interest from specified private activity bonds exempt from the regular tax”
 - PAB interest can trigger the Alternative Minimum Tax (AMT), which would make the return *out-of-scope*. Create a note (page 8) that says “PAB on 1099-INT from [payer] of \$___; when all information has been entered, make sure there is no dollar amount on Form 1040, Page 2, Line 45”. [When the note is read at the beginning of the e-File section, that should trigger the review of line 45.]

- If there are multiple 1099s with PAB amounts, change the note so that it lists each, and a total amount; enter the total amount on the fourth line of the **Form 6251 - Alternative Minimum Tax** page.
- Boxes 10 through 13: An amount in any of these boxes makes the return *out-of-scope*
- Box 17: If there is an amount in this box, see the section State Tax Withheld, on page **87**, below

Tax-Exempt Interest Income on Form 1099-INT

- Entering tax-exempt interest is described on [page D-14 of Pub 4012](#)
 - **Note:** The same TaxSlayer page is also used for entering tax-exempt *dividends*.
- TaxSlayer assumes – *if* nothing else is entered – that **all** tax exempt interest income is *exempt* from state tax
 - Generally the fund will report, in percentages, how much of the fund income is from various states; this is used to determine how much of the interest income is in fact exempt
 - **CA Note:** Interest and dividends from state and municipal bonds of states other than CA *is* taxable for the CA return
 - Click the “Add/Edit” button, specify California as the state, and enter the amount that *is* taxable on the CA return
 - The general rule is
 - If less than 50% of the assets of the fund are federal and/or CA obligations, ALL is taxed by CA
 - If 50% or more of the assets are federal or CA obligations, only the income from those obligations are exempt from CA tax
- Go to the **Schedule B Other Interest** page [Income > Enter Myself > Interest and Dividends > Interest or Dividend Income > Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10]
 - Enter the information from the Form 1099-INT

OID Interest

- On a Form 1099-OID, any amounts in boxes 5 (Market discount), 6 (Acquisition premium), 8 (Original issue discount), and/or 10 (Bond premium), as well as a checkmark in FATCA filing requirement box (to the left of box 9), are all *out-of-scope*, and make the entire return *out-of-scope*. So does any adjustment needed, based on [Pub 1212, "Guide to Original Issue Discount \(OID\) Instruments"](#), or if Form 1099-OID is not received.
- OID interest income is entered on the same TaxSlayer page used for entering Form 1099-INTs – see two sections above
 - Total the amounts in boxes 1 and 2 on the form; this is entered as if from box 1 of a 1099-INT
 - Box 3: enter as if from box 2 of a 1099-INT
 - Box 4: same as if in box 4 of a 1099-INT
 - Box 9: This amount can be deducted on the “Other expenses” line of Schedule A, subject to the 2% limit, if the taxpayer is itemizing
 - Box 13: If there is an amount in this box, see the section State Tax Withheld, on page **87**, below

Seller-Financed Mortgages (Schedule B, Line 1a)

- Seller-financed mortgages occur when the taxpayer sells a property and helps the buyer finance the purchase by providing a loan for some or all of the sale price. The payments that the taxpayer (seller) then receives will, in most cases, consist of both interest and principal. Only interest income should be reported in TaxSlayer.
 - Detailed information about such situations can be found in [Pub 537, Installment Sales](#)
 - **Note:** If the person making the loan (for example, a parent) never owned the property being purchased (in this example, by a son or daughter), then that loan is *not* a seller-financed mortgage, it’s just a regular loan, with part of payments being interest and part being to reduce the principal amount of the loan. Only the interest part is reportable, in the same way that other forms of interest are reported, even if there is no Form 1099-INT. (See above for how to report such interest in TaxSlayer.)
- When the sale of the property occurred, *if* the taxpayer had a gain, then the taxpayer (seller) had two choices: (1) report capital gains over the period of the loan, or (2) report all capital gains in the year of the sale, by including the entire sales price when calculating the capital gain or loss on the sale. If the seller chose the first of these – reporting capital gains over a period of time - then the return is *out-of-scope*.
- *If* the return is in-scope, go to **Schedule B Other Interest** [Income > Enter Myself > Interest and Dividends > Interest and Dividend Income > Interest or Dividend Income > Seller Financed Interest Income]
 - Enter the requested information
 - If the Payer’s (borrower’s) Social Security number is not known, the return must be **paper-filed**; create a note (page **8**) saying that

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- o Click “Continue”

Simple Form K-1s and Prepaid Funeral Plans

- If a Schedule K-1 form includes anything *other than* interest, dividends, royalties, capital gains/losses, and associated foreign tax credits, then the return is **out-of-scope**
 - o Pre-paid funeral/burial plans that report using a Schedule K-1 *will* be in-scope, because of their limited income categories
- Income reported on a Schedule K-1 is done on three different pages, all accessed from the **Schedule K-1** page [Income > Other Income > K-1 Earnings]. The three pages (in order) are:
 - o Partnerships (Form 1065)
 - **Note:** If the end of year capital account on the form is **negative**, then the return is **out-of-scope**
 - o S-corporations (Form 1120S)
 - o Trusts and estates (Form 1041)
- In TaxSlayer, for partnerships and S-corporations, when completing Part 1 – Information, check the “All Investment is At-Risk” box
- The fiscal year of a partnership or S-corporation, as stated on a K-1 form, may not cover a calendar year. For example, a partnership's tax year might end on February 29, 2016. In that example, all amounts on the K-1 form should be reported on the taxpayer's 2016 tax return.
- If the K-1 form lists royalties, then, after completing the TaxSlayer page for entering K-1 income, TaxSlayer will ask which Schedule E should be associated with the income from royalties
 - o If no Schedule E exists, TaxSlayer provides a link to create one, but this can be deferred until later. Generally it's best to do so immediately – see the Line 17 - Rental Real Estate and Royalties section, on page [45](#), below.
 - If no Schedule E is created before starting the e-File section, TaxSlayer will display an error that a Schedule E is missing.
- If the K-1 form lists foreign taxes paid, go to the **Form 1116 - Foreign Tax Credit** page [Federal Section > Deductions > Enter Myself > Credits Menu > Foreign Tax Credit]
 - o If there is more than one K-1 form showing foreign taxes paid, only the *total amount* is entered
 - o An amount entered on the **Form 1116 - Foreign Tax Credit** page will go to Line 48, Foreign Tax Credit, on Form 1040, as discussed on page [67](#), below

LINE 9 - DIVIDENDS

- Entering dividend information from a Form 1099-DIV is described on [page D-15 of Pub 4012](#)
 - o **Warning:** Form 1099-DIV, and the entire tax return, is **out-of-scope** if there are any entries in boxes 2c, 2d, 8, and/or 9, or if the “FATCA Filing Requirement” box (to the left of box 10) has been checked.
- Go to the **Enter your Dividend Income (Form 1099-DIV)** page [Income > Enter Myself > Interest and Dividends > Interest or Dividend Income > Dividend Income, Form 1099-DIV, Box 1]
- Enter amounts from boxes 1a, 1b, 2a, 2b, 3, 4, and 6 into the TaxSlayer page
 - o **Note:** Box 2b, “Unrecap. Sec. 1250 gain”, is in-scope; ignore the statement to the contrary in Pub 4491.
 - o **Note:** If there is an amount in box 3, advise the taxpayer that non-dividend distributions are a return of investment (principal) and reduce the cost basis of their investments. (Such distributions are non-taxable.)
- For other information on the Form 1099-DIV:
 - o Box 5: This amount can be deducted on the “Other expenses” line of Schedule A, subject to the 2% limit, if the taxpayer is itemizing
 - o Box 6: An amount entered here will go to Line 48, Foreign Tax Credit, on Form 1040, as discussed on page [67](#)
 - o Box 10: To enter this amount into TaxSlayer, follow the instructions for entering tax-exempt interest that is reported in box 8 of a Form 1099-INT – see the Tax-Exempt Interest Income on Form 1099-INT section on page [27](#), above
 - o Box 11: The private activity bond (PAB) amount is entered on the **Form 6251 - Alternative Minimum Tax** page [Federal Section > Other Taxes > Alternative Minimum Tax], on the fourth line, “Interest from specified private activity bonds exempt from the regular tax”
 - PAB interest can trigger the Alternative Minimum Tax (AMT), which would make the return out-of-scope. Create a note (page [8](#)) that says “PAB on 1099-INT from [payer] of \$ ___ ; when Federal

Section is done, make sure there is no dollar amount on Form 1040, Page 2, Line 45”. [When the note is read at the beginning of the e-File section, that should trigger the review of Line 45.]

- If there are multiple 1099s with PAB amounts, change the note so that it lists each, and a total amount; enter the total amount on the fourth line of the Form 6251 - Alternative Minimum Tax page.
- Box 14: If there is an amount in this box, see the section State Tax Withheld, on page 87, below
- **CA Note:** Dividends from mutual funds that invest in federal government securities are not taxable by CA. On the line “Amount of Interest on U.S. Savings Bonds and Treasury obligations that you want subtracted from your state return”, enter the amount that CA doesn’t tax
 - Dividends from mutual funds that invest in U.S. Savings Bonds, Treasury Bonds and other direct obligations backed by the U.S. Government are not taxed by California; this includes federal Land Banks and Federal Home Loan Banks, but does **not** include Fannie Mae or Freddie Mac
 - Determining the amount will require a detailed review of the broker’s statement or other documentation for the Form 1099-DIV.
- **CA Note:** CA does not recognize HSA trusts. Dividend income earned in such a trust is taxable for CA – see Health Savings Accounts in CA, below, page 84

Foreign Account or Assets

- If the 1099-DIV appears to be from a foreign source, see Foreign Accounts or Assets, on page 25, above.

LINE 10 - TAXABLE STATE INCOME TAX REFUND

- A state refund amount for the prior year’s tax return is reported on a Form 1099-G. This amount **may** be taxable in the year received; for example, a state income tax refund for the 2015 tax year may be taxable on the 2016 federal tax return
 - The refund amount is NOT taxable if there was no benefit to the taxpayer, in the prior year, from an overpayment of state taxes
- **CA Note:** California uses a postcard-sized document to report this refund
 - **Note:** It is theoretically possible to have state tax withholding reported on this form, in box 11. If there is an amount in box 11, see the section State Tax Withheld, on page 87, below
- No action is required for Line 10 if **any** of the following is true:
 - The taxpayer did not get a Form 1099-G, and (if available) the CA return for the prior year shows no state tax refund (CA Form 540, page 3, line 91).
 - The taxpayer did **not** itemize on the prior year (there was no Schedule A for the federal return)
 - The taxpayer did itemize in the prior year (there was a Schedule A), but used general sales tax, line 5b, on the Schedule A, rather than income taxes, line 5a
 - The taxpayer did itemize in the prior year (there was a Schedule A), and did use income taxes, line 5a, rather than sales taxes, line 5b, as part of itemization, but this had **no** benefit based on the following calculation:
 - Line 42, “Exemptions”, on the 1040 for the prior year, is larger than Line 41, and subtracting line 42 from line 41, the difference (expressed as a positive number) is larger than line 5a on Schedule A.
- If the taxpayer has a Form 1099-G, and/or the prior year’s state tax return shows a refund, **and** none of the conditions listed in the paragraph above are met, then determine how much of the refund *is* taxable is needed
 - Go to the **State Refund Worksheet** page [Federal Section > Enter Myself > State and Local Refunds; search box: “Form 1099-G Box 2”]
 - **Note:** As of the print date of this manual, the TaxSlayer worksheet does not fully match the IRS standard worksheet. An alternative, recommended refund calculator is at cotaxaide.org/tools/
 - To accurately complete the worksheet, the taxpayer’s prior year federal tax return **MUST** be available
 - If the tax return is *not* available, then either the entire amount of the refund must be treated as taxable (use the top line on the TaxSlayer page), or the return is **out-of-scope**
 - If only the paper version of the prior year federal tax return is available, then the general sales tax amount, the second entry for line 2 of Schedule A, must be looked up online. The IRS calculator for this is at irs.gov/Individuals/Sales-Tax-Deduction-Calculator
- For a refund received in 2016 that is from a tax year of 2014 or earlier, see the instructions on page D-11 of Pub 4012, revision date of October 25, 2016, or later
- **CA Note:** State taxes could not have been used as part of an itemized deduction on the prior year CA return, so any amount on Line 10 of the current year Form 1040 is not taxable on the current year CA Form 540. TaxSlayer makes the adjustment on CA Schedule CA, line 10.

LINE 11 - ALIMONY RECEIVED

- See [page E-5 of Pub 4012](#) for the tests to determine if payments are alimony
 - Child/family support received is NOT alimony and is NOT taxable income
- Enter the alimony amount received on the **Alimony Received** page [Federal Section > Enter Myself > Income]
- TaxSlayer correctly handles these aspects of alimony:
 - Alimony is not considered earned income for EIC
 - Alimony *is* considered compensation for the purpose of making an IRA contribution

LINE 12 - BUSINESS INCOME

- AARP Foundation Tax-Aide sites will NOT prepare business returns (Form 1041); the Tax-Aide program only prepares personal tax returns (Form 1040), including Schedule C, Profit or Loss from Business
 - Total **expenses** on any single Schedule C cannot exceed **\$25,000** (was \$10,000, for tax years 2014 and earlier)
 - There is no income limit and all income must be reported Multiple Schedule C's are allowed (use one for each business; do **not** combine businesses)
- For an activity of a taxpayer to qualify as a business, and be reported on Schedule C, the taxpayer's primary purpose for engaging in the activity **must be** for income or profit, and s/he must be involved in the activity with continuity and regularity.
 - Activities that generate income and offsetting expenses but do not meet the criteria of being for income or profit (for example, coin collecting) are classified by the IRS as a **hobby** and make the return **out-of-scope**.
 - For hobbies, offsetting expenses can be included on Schedule A, but again, this is **out-of-scope**.
 - **Note:** Rental income, if in-scope, is reported on Line 17 - Rental Real Estate and Royalties (see below, page [45](#)), not on Schedule C
- The following, for Schedule C, make the return **out-of-scope**: a net loss on a Schedule C, any business with inventory, or with depreciation deduction (including an immediate write-off election), or where office-in-the-home expenses are claimed (not even the simplified method is in-scope), or with accrual accounting, or with employees, or which made payments that required the business to file a Form 1099-MISC (or any other type of Form 1099), or where there were contributions to a SEP/SIMPLE retirement plan
 - If the taxpayer has a **net loss**, it is not sufficient to simply exclude some expenses so that Schedule C shows zero income, or a small profit. Counselors must determine whether what is being reported is a **hobby**, rather than a business. Returns reporting income from hobbies are **out-of-scope**.
- If the taxpayer is self-employed and has significant insurance premiums, including LTC premiums, see the section Line 29 - Self-Employed Health Insurance (*out-of-scope*) on page [54](#), below, regarding whether it is best for the taxpayer to have Tax-Aide prepare the tax return
- The National Tax Training Committee (NTTC) of the AARP Foundation has published "Schedule C – Profit or Loss from Business (Sole Proprietorship) Guidelines Summary" [OneSupport Help Center > Tax Training > Policy/Tax Law > "Schedule C Guidelines Summary TY16 - 2016-10-25"], which includes detailed guidance on what is in-scope for Schedule C, and how to handle a wide variety of expenses; examples are provided. A review of this document is highly recommended for any counselor who is preparing a Schedule C.

Business Information for Schedule C

- Go the **Schedule C** page [Federal Section > Enter Myself > Profit or Loss From A Business]; after information is entered, this page is reachable via Federal Section > Income > Profit or Loss From A Business > Edit > Basic Information About Your Business
 - **Note:** You'll also reach this page if you're entering information about a 1099-MISC for this business, and the basic business information hasn't already been entered.
 - If a MFJ return, identify whether the business is for the taxpayer or the spouse
 - If a jointly-run business, income and expenses must be split between *two* Schedule Cs
 - Complete the Name and Address information
 - Complete the Business Type information:
 - Business Codes can be found by clicking on the link in TaxSlayer, or at cotaxaide.org/tools/, or in the [Form 1040 Schedule C instructions](#)
 - **Note:** If you cannot find an appropriate code, use **812990**

- o After completing the form and clicking “Continue”, TaxSlayer goes to the **Schedule C menu** page (“landing page”). This page links to pages to enter various information about this specific Schedule C business.
- From the **Schedule C menu** page, click on “Questions About the Operation of Your Business” to go to the **Schedule C Questions** page
 - o The Accounting Method must be “Cash”; otherwise the return is **out-of-scope**
 - o The “Method used to value closing inventory” must be “Not Applicable; otherwise the return is **out-of-scope**
 - o The answer to the material participation question must be “Yes”; otherwise the return is **out-of-scope**
 - o The boxes related to payments needing Form 1099 forms must be *left unchecked*; otherwise the return is **out-of-scope**
 - An example of being **out-of-scope** would be a Form 1099-MISC, issued by the business, for services of \$600 or more performed by an independent contractor
 - o A checkmark in any other box, other than the one about this being the first Schedule C for this business, make the return **out-of-scope**
 - o **Note:** You can’t get back to the **Schedule C Questions** page (for example, for Quality Review) except via the “Restart Schedule C Guide” link on the **Schedule C** menu page.
 - When you’re finished with the Questions page, to get back to the Schedule C menu page: click “Continue”, then click the “Restart Schedule C Guide” link, then click “Cancel”.

Form 1099-MISC for a Schedule C

- Form 1099-MISC paper documents are normally entered on the **Form 1099-MISC** page, which is reached from the main **Income** page in the Federal Section. However:
 - o Any amount in boxes 5, 6, and/or 8 through 15b make the return **out-of-scope**
 - o Activities that generate income and offsetting expenses but do not meet the criteria of being for income or profit (for example, coin collecting) are classified by the IRS as a **hobby** and make the return **out-of-scope**. Offsetting expenses – regardless of whether income was or was not reported on a 1099-MISC - are allowable on Schedule A, but are similarly **out-of-scope**
 - o Rental income on a 1099-MISC, if in-scope, is reported on Line 17 - Rental Real Estate and Royalties, not on Schedule C; go to page **45**, below
- Income in **box 7**, “Nonemployee compensation,” is normally carried by TaxSlayer to a Schedule C. **If this income does not belong on a Schedule C** (see the section Line 12 - Business Income, on page **30**, above, for further discussion), then **do not use the Form 1099-MISC page** in TaxSlayer.
 - o Instead, enter the income along with all income that was go to the **Other Income** page [Federal Section > Enter Myself > Other Income > Other Income Not Reported Elsewhere] and enter the box 7 amount; for the description, enter “1099-MISC”
 - Ignore the statement on this TaxSlayer page that says that only box 3 and box 8 amounts from a 1099-MISC should be entered on the **Other Income** page
- Income in **box 3**, “Other income”, is normally carried by TaxSlayer to Line 21, “Other income”, of Form 1040.
 - o If income reported in box 3 does belong on Line 21 of the Form 1040, then the form can be entered normally on the **Form 1099-MISC** page in TaxSlayer
 - o If income reported in box 3 does not belong on Line 21 of the Form 1040, but in fact is business-related and belongs on a Schedule C, then a three-step process should be followed:
 - Use the normal TaxSlayer page to enter the information from the paper Form 1099-MISC
 - Next, remove the income from Line 21: Go to the **Other Income** page [Federal Section > Enter Myself > Other Income > Other Compensation >] and enter the amount as a *negative* number, with the description “1099-MISC Correction”
 - Finally, add the income to the Schedule C along with all business income *not* on a 1099-MISC, as described in the next section.
 - o **Box 16:** If there is an amount in this box, see the section State Tax Withheld, on page **87**, below

Schedule C Income not on a 1099-MISC, or not in Box 7 of a 1099-MISC

- Business income not reported on a 1099-MISC form, or in a box other than box 7 on a 1099-MISC, is added to a Schedule C by going to the **Schedule C - Income** page [Federal Section > Enter Myself > Profit or Loss From A Business > Income]

Federal Section - Income

- o On the first line, enter the total amount of all income not included in box 7 of a Form 1099-MISCs. (If records provided by the taxpayer do not include income from cash or check payments, **ask** if there was any such income.)
- o **Include in this total** any income reported in box 3 (“Other income”) on a 1099-MISC where that income belongs to this Schedule C, and has been moved out of Line 21 of the Form 1040 as discussed in the section immediately above
- o **Include in this total** any income reported in box 2 (“Royalties”) on a 1099-MISC where that income is due to the taxpayer’s own personal services, such as being an author or entertainer. [Such income cannot be entered on the **Form 1099-MISC** page, because TaxSlayer *will not* carry it to a Schedule C.]
 - Business code 711510 is for “Independent artists, writers, & performers”
- If taxpayer receives a Form 1099-K for self-employment income (not for the sale of goods or rental income such as Airbnb, both of which are **out-of-scope**), make sure the total shown on the 1099-K is included on Schedule C

Schedule C – Out-of-Scope Expenses

- On the **Schedule C** menu page, the following are **out-of-scope**:
 - o Cost of Goods Sold
 - o Depreciation
 - o Expenses for Business Use of Your Home

Schedule C – General Expenses

- Part II of Schedule C is a list of specific expense categories that the IRS wants information on. These may or may not cover the majority of expenses of a typical business, but expenses in these categories should be entered on the **Schedule C – Expenses** page [Federal Section > Enter Myself > Profit and Loss from a Business > General Expenses]
 - o Of these, the following are **out-of-scope**:
 - Depletion
 - Employee benefit programs

Health insurance (see Schedule C – Final Steps)

- After all income and expenses have been entered, for all Schedule Cs, *check line 12* on the Form 1040 (via the Summary/Print link on the left navigation bar). If the amount matches what was calculated outside of TaxSlayer, you’re done with Schedule C entries as the preparer
 - o **Note:** the **exception** is if the amount is zero. TaxSlayer may have actually calculated that there was a *loss*; review the actual Schedule C (see the next bulleted item)
- If no total was calculated outside of TaxSlayer, or the total doesn’t match, or if the total is zero, click the “Preview Return” button (upper right of the screen) to view the PDF of the return, which includes the Schedule C(s).
 - o Compare the specific amounts on the Schedule C(s) to the records of the taxpayer, to determine whether everything was entered correctly
 - **Note:** This is the best way to do a quality review of how the taxpayer’s business-related records were entered into TaxSlayer
 - Health Insurance Costs as a Business Expense on page **33**, below)
 - Mortgage interest
 - Pension and profit-sharing
 - Utilities
 - o The following expenses have limitations
 - Rent or lease of equipment – this can include a car rental or lease, but only if for more than 30 days; shorter-term car rentals are **out-of-scope**
 - Meals and entertainment expenses –see [Pub 4012, pages F-9 through F-13](#) for what is allowable. [Special documentation rules apply for the cost of meals and entertainment if over \$75. The taxpayer must have receipt(s) showing where, when, and how much, and must document the business nature of the meal or entertainment.]
- Expenses that don’t fit into one of these categories, are not specifically **out-of-scope** (see the list in the section immediately above), and are not car and truck expenses (see the next section), are entered in TaxSlayer as “other expenses” – see Schedule C – Other Expenses, on page **33**, below

Schedule C – Car and Truck Expenses

- In the Tax-Aide program, only **mileage** can be used to claim vehicle expenses. *Actual expenses* (fuel, maintenance and repairs, depreciation, etc.) are **out-of-scope**.
 - For 2016, the rate was \$0.54 per mile
 - [Page F-12 of Pub 4012](#) has a diagram explaining which mileage is not deductible (commute miles) and which is (business miles). *However, the diagram is limited – it does not cover all situations* described in [Chapter 4 of Pub 463, "Travel, Entertainment, Gift, and Car Expenses"](#)
 - For example, if the taxpayer has no regular place of work but ordinarily worked in the metropolitan area where they live, they can deduct daily transportation costs between home and a temporary work site *outside* that metropolitan area. [A temporary work location is one where work is expected to last less than one year.]
- Information about vehicle expenses is entered on the **Schedule C Car and Truck Expenses** page [Federal Section > Enter Myself > Profit and Loss from a Business > Car and Truck Expenses]

Schedule C – Other Expenses

- Other Expenses are entered individually, on the **Schedule C Other Expenses** page [Federal Section > Enter Myself > Profit and Loss from a Business > Other Expenses]. Some relevant rules:
 - Local telephone service (“landline”): The cost of basic telephone service, including taxes, is considered 100 percent personal, so no portion can be deducted on *Schedule C*. Itemized long distance phone calls, however, can be, as can an additional phone line used only for business purposes.
 - Mobile (cell) phone: Some or all of the cost of a mobile (cell) phone is deductible **only** if the taxpayer has a land line; if not, then only itemized long-distance charges for business purposes are deductible. (A second mobile phone, used exclusively for business, is allowable as an “other expense”.)
 - If the taxpayer has a landline, then the cost of the mobile phone should be allocated based on the percentages of business and personal use.
 - The taxpayer must be prepared to provide written supporting information to the IRS, if challenged. That could be itemized phone bills, with calls marked as business or personal, or it could be a log of business or personal phone calls made. (Without such documentation, the IRS will disallow all costs.)
 - Internet and computer expenses: A percentage of Internet and recurring computer-related expenses, such as subscription software, can be deducted, based on business use versus personal use
 - Equipment: The purchase of equipment, such as a computer, printer, or video camera, is **out-of-scope** if the cost of the item is **\$2,500 or more**; the return itself is in-scope if the taxpayer is willing to exclude such items from Schedule C. [The amount was \$500 for the 2015 tax year.]
 - For tax year 2016, Tax-Aide clients may **expense** capital items purchased in 2016 whose cost was \$2,500 or less (including sales tax and shipping costs) **if** a statement is included with the return that the taxpayer has elected to do so. As of the print date of this manual, it is unclear how TaxSlayer will accomplish this.
 - The statement should be titled “Section 1.263(a)-1(f) de minimis safe harbor election.” That should be followed by the taxpayer’s name, address, and taxpayer identification number (SSN or ITIN). Finally, add a statement that the taxpayer is making the de minimis safe harbor election under §1.263(a)-1(f). [Yes, this is somewhat redundant.]
 - Business use of the home: No expenses (or allocation of expenses) are allowed for business use of the home: rent, utilities, homeowner or renter insurance, etc.
 - Fines and penalties cannot be expensed
 - Casualty losses are **out-of-scope**
- Resources:
 - [Page F-13 of Pub 4012](#) has information on recordkeeping for travel, entertainment, gifts, and transportation expenses
 - Chapter 11, Other Expenses, of [Pub 535, Business Expenses](#), has more information on allowable expenses

Schedule C – Final Steps

- After all income and expenses have been entered, for all Schedule Cs, *check line 12* on the Form 1040 (via the Summary/Print link on the left navigation bar). If the amount matches what was calculated outside of TaxSlayer, you’re done with Schedule C entries as the preparer

Federal Section - Income

- o **Note:** the *exception* is if the amount is zero. TaxSlayer may have actually calculated that there was a *loss*; review the actual Schedule C (see the next bulleted item)
- If no total was calculated outside of TaxSlayer, or the total doesn't match, or if the total is zero, click the "Preview Return" button (upper right of the screen) to view the PDF of the return, which includes the Schedule C(s).
 - o Compare the specific amounts on the Schedule C(s) to the records of the taxpayer, to determine whether everything was entered correctly
 - **Note:** This is the best way to do a quality review of how the taxpayer's business-related records were entered into TaxSlayer

Health Insurance Costs as a Business Expense

- Health insurance costs, including LTC premiums, are allowable as an expense for those who are self-employed, **but** go on Line 29 of Form 1040, "Self-employed health insurance deduction", which is *out-of-scope*. Alternatively, these costs can go on *Schedule A*, and the return is in-scope.
 - o If the taxpayer doesn't end up itemizing – that is, if the standard deduction is larger than the calculated itemized deduction for Schedule A, and IF the taxpayer has a significant net profit on line 31 of Schedule C, then there may be significant benefits to the taxpayer if they go to a paid preparer or use tax-preparation software, in order to deduct health insurance costs on Line 29.

Notary Fees

- Income from notary fees, and related expenses, are reported on Schedule C in the normal manner
- Notary fees are exempt from self-employment tax
 - o Go to the **Schedule SE Self-Employment Tax** page [Federal Section > Other Taxes > Self-Employment Tax; not available via the search box] and select the correct taxpayer, if a MFJ return
 - o Enter the net profit from the notary business in the box "Enter Exempt Notary Income" (the second box on the page where a dollar figure can be entered)
 - o Click "Continue" to finish the page

LINE 13 - CAPITAL GAIN OR LOSS

Only sales of stocks, mutual funds, certain bonds, and personal residences are in-scope
Worthless debts or the sale of other types of securities or assets make the return *out-of-scope*

- Capital gains and losses are reported on a Form 1099-B, which is often part of a broker's statement that includes a Form 1099-INT and a Form 1099-DIV. Those other forms are handled as discussed the sections Line 8 - Taxable Interest, on page 25, and Line 9 - Dividends, on page 28, respectively.
 - o Also look on the broker's statement for separate management or investment fees. If the taxpayer is itemizing, these go on Schedule A – Miscellaneous Deductions (Lines 22, 23, and 28), as discussed on page 65, below
- **CA Note:** CA does not recognize HSA trusts – gains and losses incurred in the trust are currently reportable for CA - see Health Savings Accounts in CA, below, page 84

Out-of-scope

- The following are *out-of-scope* and make the return *out-of-scope*
 - o A tax return for, or involving a dependent child with more than \$2,100 of investment income, including gains on the sale of stock
 - o If the taxpayer has received Form 2439 (notice to shareholder)
 - o If the return requires completing Form 4797 (Sales of Business Property), 6252 (Installment Sale Income), 6781 (Gains and Losses from Section 1256 Contracts and Straddles), and/or 8824 (Like-Kind Exchanges)
 - o If the taxpayer has margin interest (is borrowing money from the broker, to purchase securities, and is itemizing)
 - o Sales paid for with virtual currencies, such as bitcoin
 - o **Note:** [Page D-40 of Pub 4012](#), describes *out-of-scope* adjustments, any of which make the entire return *out-of-scope*

Summarization

- Transactions on a Form 1099-B will be entered into TaxSlayer in *summarized* format, as discussed on [Page D-38 of Pub 4012](#). Each Form 1099-B will have no more than four entries in TaxSlayer: short-term "covered"

(basis reported to the IRS) (box “A”); short-term “uncovered” (basis **not** reported to the IRS) (box “B”); long-term “covered” (basis reported to the IRS) (box “D”); and long-term “uncovered” (basis **not** reported to the IRS) (box “E”).

- For the 2017 tax season, broker’s statements that are entered into TaxSlayer in a summarized format will **not** be scanned, nor copied and mailed to the IRS in paper format. Form 8453, “U.S. Individual Income Tax Transmittal for an IRS e-file, will **not** be prepared in either paper or electronic form.

Entering Capital Gains and Losses

- From the **Income** menu page in the Federal Section, select “Capital Gains and Losses (Schedule D)”; then, on the **Schedule D Capital Gains** menu page, select “Capital Gains and Loss Item”. On the **Capital Gains Transaction** page, complete the needed information.
- For Description of Property, enter the broker’s name (for example, “TIAA” or “Scottrade”)
 - If there is more than one transaction in the group (A, B, D, or E), add “_M” to the broker’s name.
- For Date Acquired, if there is a single transaction, and either the purchase date is on the Form 1099-B or the taxpayer knows the approximate purchase date, then enter that date
 - If multiple transactions are being summarized, then check “Alternate Option” and from the “ – Select if Applicable - ” box, select the appropriate option (if a mix of inherited and non-inherited long-term sales, select “Various – Long Term”)
- For Date Sold, if there is a single transaction, enter that date from the Form 1099-B
 - If multiple transactions are being summarized, then pick the date of sale for *any* transaction, and enter that date
- For Sales Price, enter the total proceeds from selling the stock(s), bond(s), and/or mutual fund(s) in the group.
 - This total will almost always be on the broker’s statement; it should rarely or never be necessary to manually total the transactions in a group.
- The Cost (Basis) type should be clearly stated on the broker’s statement (groups A and D are basis reported to the IRS; groups B and E are basis **not** reported)
 - Cost (basis) will *always* be shown on the broker’s statement for group A and D transactions.
 - For group E transactions, the cost *may* be shown; if it is, the taxpayer may use that basis, or may have their own document showing a different methodology for determining their cost (first-in, first-out; first in, last-out; average cost)
 - If the cost (basis) is not shown on the Form 1099-B, and a gain/loss statement or original purchase confirmation is not available, there are several options:
 - The taxpayer can ask their broker to research and (hopefully) provide the cost basis
 - If the taxpayer knows approximately when the security or mutual fund was purchased, they can use the *lowest* value during the period when they think the purchase occurred. Historic stock values can be found online, at (for example) bigcharts.marketwatch.com/historical/ or finance.yahoo.com/market-overview/
 - If all else fails, enter zero as the basis and advise the taxpayer that **the return can be amended when a basis is determined**. (If the taxpayer is in the 10% or 15% tax bracket, then no amendment may be necessary, because capital gains may be taxed at zero percent. See the *Summary* page, *line 33*, to determine the marginal tax bracket, *after* entering capital gains and other tax information.)
 - ◻ **Note:** If the taxpayer has Social Security income, then capital gains *can* increase taxable income *even though the taxpayer is in the 10% or 15% tax bracket*. That’s because capital gains, on page 1 of the Form 1040, can increase the taxable portion of Social Security income.)
 - If a non-statutory qualified stock option is exercised and sold on the same day, the taxpayer’s Form W-2 will show a code V and the compensation amount is included in box 1 wages
 - The disposition of the stock acquired through the option is reported on a Form 1099-B
 - Often there is a small loss reflecting the commissions
 - Inherited property
 - The basis is normally the FMV at the death of the original owner; this dollar amount must come from the taxpayer
 - However, estates of decedents dying in 2010 could have made an election for a carryover basis that would be shown on a Form 8939 provided by the estate. If so, use the basis provided and the original purchase date
 - ◻ The taxpayer may also provide the necessary information

Federal Section - Income

- **CA Note:** The basis for CA returns, in all cases, is FMV at the date of death. An adjustment will be needed on CA 540 Schedule D if a Form 8939 did not use FMV
 - As of the print date of this manual, there is no way to make such an adjustment in TaxSlayer
- Adjustments to the gain or loss can be made using a drop-down list in TaxSlayer. (For most entries, no adjustment will be needed.)
 - Entering a negative amount will *reduce the gain* on what has been entered, or, if what was entered was a loss, entering a negative amount will *increase the loss*.
 - [Page D-39 of Pub 4012](#), describes how to handle in-scope adjustments [*note: the heading in the left column on page D-39 is incorrect; page D-39 describes **in-scope** adjustments*]
 - [Page D-40 of Pub 4012](#), describes **out-of-scope** adjustments, any of which make the entire return **out-of-scope**
 - **Note:** Any adjustments recorded in TaxSlayer should also be made on the paper Form 1099-B, so that the two match.
- When done with the transaction, either click “Continue” [no more groups to enter on this Form 1099-B, and no more 1099-Bs to enter], or “Save and Enter Another”

Verification

- After doing all entries, it’s a good idea to review Schedule D, to make sure that amounts are on the proper lines and add up to the same total as on the taxpayer’s pages or brokers’ statements. To do so, click the “Preview Return” link on the upper left of the screen.
 - **Note:** Information on the Schedule D comes from one or more Form 8949s, “Sales and Other Dispositions of Capital Assets”, which are included in the PDF for the tax return. The Form 8949s themselves are calculated from the information entered in TaxSlayer. So if the Schedule D looks wrong, you can use the Form 8949s to help identify the problems.

Taxes Withheld

- If federal tax has been withheld on a Form 1099-B or broker’s statement, go to the **Other Federal Withholdings** page [Federal Section > Payments & Estimates], enter the amount, check the box, and click “Continue”
 - Because there is one field to enter the *total* of all entries, a note (see page 8) is recommended for *each* entry on this page
- **CA Note:** If there is any CA tax withholding, see the section State Tax Withheld, on page 87, below

If there is a capital loss carryover for the next tax year, TaxSlayer will add a Capital Loss Carryforward Worksheet – Lines 6 and 14 to the tax return paperwork that is provided to the taxpayer

Capital Loss Carryover From Prior Year's Schedule D

- TaxSlayer will carry forward the capital loss carryovers if your site prepared the return last year
 - Otherwise, you need the prior year’s tax return, or a copy of the appropriate worksheet, to correctly report any loss carryover
- Enter in TaxSlayer (or verify, if carried forward) the amounts from the prior year capital loss carryover, on the **Other Capital Gains Data** page [Federal Section > Enter Myself > Income > Capital Gains and Losses (Schedule D) > Other Capital Gains Data]
 - Enter the number(s) as positive ones (do not use a negative sign)
- TaxSlayer will create a new carryforward worksheet for any balance over the maximum allowable loss of \$3,000 (\$1,500 if MFS)
 - For lower-income taxpayers, if there is a capital loss showing on the prior year’s Form 1040, on Line 13 (for example, \$3,000), the carryover from that prior year is not necessarily reduced by the amount on Line 13. The reduction depends on the tax benefit, if any, from the capital loss.
 - Tax law requires the taxpayer to use a capital loss before being allowed to use a personal exemption. If Line 41 of Form 1040 for the prior year is positive, then the benefit *was* fully received. If that line is negative by \$3,000 or more [\$1,500 if a MFS return], then the taxpayer received *no benefit*. A number in-between means that only *part* of the capital loss provided benefit, so only *part* will reduce the carryforward.

- For that in-between case, if there are *both* short-term and long-term carryforwards, use the *Capital Loss Carryforward Worksheet – Lines 6 and 14*, which may be part of the prior year’s tax return; if it is not, then it can be found in the [Schedule D Instructions](#)
- **CA Note:** Capital loss carryover amounts can vary between federal and state due to HSA or other rules.
 - As of the print date of this manual, there is no way in TaxSlayer to make the capital loss carryover amounts on CA 540 Schedule D to be different than the amounts on the federal Schedule D.

Sale of Main Home

Note: Enter the sale information only if the taxpayer has received a Form 1099-S, or if there is a gain on the sale of the home that is taxable in part or in full. **If neither is true, do not enter any information into TaxSlayer**

- [Pub 17, Chapter 15](#), “Selling Your Home”, has general information about determining whether there is a taxable gain on the sale of a home.
 - A main home can be a houseboat, mobile home, condo, or co-op
- Special circumstances:
 - If any portion of the taxpayer's main home was ever rented out or used for business (home office) such that depreciation would have been allowable (whether or not it was actually claimed), the return is **out-of-scope**
 - If the home was purchased in 2008 and the First-Time Homebuyer Credit was claimed, the main calculations for the sale of the home are not affected, but additional information probably needs to be entered into TaxSlayer: see Line 60b - First-Time Homebuyer Credit Repayment, Form 5405, on page [74](#), below
 - If the taxpayer received a Form 1099-S, and has a loss on the sale of the home, do *not* follow the instructions below. Instead, report the sale on the **Capital Gains Transaction** page [Federal Section > Enter Myself > Capital Gains and Losses (Schedule D > Schedule D Capital Gains > Capital Gains and Loss Item)], following the instructions on [page D-43 of Pub 4012](#)
- To claim the exclusion of a gain on the sale of a main home, the taxpayer must meet the ownership and use tests
 - The taxpayer must have owned the property for a total of 24 months of the previous 60 months
 - The ownership requirement can be satisfied by one of the two spouses filing a joint return
 - The taxpayer must have used it as their **principal** residence for a total of 24 months of the previous 60 months
 - The use requirement must be satisfied by both spouses when filing a joint return to claim the maximum \$500,000 exclusion of the amount of gain
 - If only one spouse satisfies the use test, the exclusion is limited to \$250,000
 - The ownership and the residence 24-month test periods do not have to be continuous nor overlapping
- To claim an exclusion, the taxpayer cannot have sold another property in the previous two years AND used the exclusion for that previous sale
- Computing the (cost) basis of a home, to determine the exact amount of gain, is complicated; it may require a complete review of the transactions regarding home purchases and sales since the acquisition of the taxpayer’s first home, if the current home was purchased before May 8, 1997 (because profits on the gain from the sale of a home, prior to that date, could be postponed if a new home, of at least the same price, was purchased)
 - The taxpayer needs to provide the basis information
 - Calculation of this basis by a counselor is **out-of-scope**
 - **CA Note:** Because CA is a community-property state, if a married couple jointly owns a home, and one of the two dies, the basis of the home changes to the FMV at the time of the death.
- To enter information into TaxSlayer for a gain on the sale of a main home, go to the **Sale of Home** page [Federal Section > Enter Myself > Income > Capital Gains and Losses (Schedule D) > Sale of Main Home Worksheet]
 - Follow the instructions on [pages D-41 and D-42 of Pub 4012](#)
 - **CA Note:** CA conforms to the federal rules, including the potential exclusion of \$500,000 in gain when the house is sold by a widow/widower within 2 years of the date of death of their spouse
- **CA Note:** If the taxpayer had CA tax withheld from the sale they will receive CA Form 593
 - Go to the **CA Real Estate Withholding (from Form 593)** page, and enter information into that page and the four associated pages, using the paper CA Form 593
 - Information entered into TaxSlayer will show on the CA Form 540, on page 3, line 73.

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

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

Required Minimum Distributions (RMDs)

- If the taxpayer (or, if a MFJ return, the spouse) is at least age 70½ by December 31 of the tax year, and if they have a traditional IRA, then they are normally required to begin taking distributions from that IRA. ,
 - If the taxpayer or spouse has reached that age, or is close to it, and there are no Form 1099-Rs in the documents provided by the taxpayer that involve *distributions*, discuss whether the taxpayer or spouse has any traditional IRA accounts, and if so, their RMD options
 - If the taxpayer *does* have one or more Form 1099-Rs with *distributions*, discuss if the total distributions meet the total RMD requirements
 - More information is in the section 5329 Part IX – RMD Not Taken, on page **74**, below

1099-R Forms

- Pensions and annuity income and IRA distributions are reported on three different forms:
 - Form RRB-1099-R is for railroad retirement; follow the instructions in the section which discusses that form, on page **45**, below
 - The federal government issues the form CSA 1099-R. This is a close variant of the standard Form 1099-R; the differences are noted in the section Office of Personnel Management (OPM) CSA 1099-R form, on page **44**, below
 - Form 1099-R is entered in TaxSlayer on the **1099-R** page [Income > IRA/Pension Distributions (1099-R, RRB-1099-R, SSA-1099) > Add or Edit a 1099-R
- Box 7 of the paper Form 1099-R is critical, because certain codes are **out-of-scope: 2** (if the “IRA/SEP/SIMPLE” box is checked), **5, 8, 9, A, D** (if a high-income taxpayer), **E, J, K, N, P, R, T** (if any part of the distribution is taxable, which needs to be determined), and **W**
 - Occasionally the code in box 7 is two characters, not one. In such cases, if *either* character is **out-of-scope**, then the form, and the entire return, is **out-of-scope**.

1099-R Form - Recipient Name and SSN/ITIN

- For a MFJ return, select whether the recipient is the taxpayer or the spouse
- If the SSN on the paper Form 1099-R is incorrect, the taxpayer needs to get a corrected form
- If the SSN field on the paper Form 1099-R is blank, this is not a valid Form 1099-R.
 - **Warning:** If the taxpayer has an ITIN and presents a paper Form 1099-R which has an SSN on it, the return cannot be e-filed; a paper return must be prepared Create a note (page **8**) saying that. (**Note:** If the paper form has the ITIN for the taxpayer, that’s fine – the return can be e-filed.)

1099-R Form – Payer Information

- Payer's ID – enter the EIN.
 - If TaxSlayer has encountered that EIN on another return, **at the same site**, during the **current** tax season, the name and address information will automatically be filled in
 - If this done, compare name and address information to the paper Form 1099-R and make corrections as needed. Several companies use the same EIN for multiple addresses; an EIN match can generate the correct company name but the wrong address.
- If the payer’s name and ID don’t match the Form 1099-R exactly, an e-filed return may reject because the information sent by TaxSlayer does not match IRS records

1099-R Form – Recipient Address

- TaxSlayer automatically uses taxpayer information from the Basic Information section to fill in the Recipient Information section.
- If the TaxSlayer-provided address information does not match the address shown on the paper Form 1099-R, change the address on the TaxSlayer **1099-R** page to agree with the address shown on the paper Form 1099-R.
 - If no address is shown on the Form 1099-R, leave the TaxSlayer-provided address as is.

1099-R Form - Distributions

- Form 1099-R is used for two somewhat similar things: distributions from individual retirement accounts (reported on Line 15 of Form 1040), and pensions and annuities. Distributions are covered in this section; pensions and annuities are covered in a later section

- o Generally, if a Form 1099-R is for a distribution, then, near the box 7 code, the checkbox “IRA/SEP/SIMPLE” will be checked. However, for Roth distributions, this is not required
- o Annuities and pensions will have, in box 7, one of the following codes: **3**, **4** (also used for distributions), **6**, **7** (also used for distributions), **D**, or **F**
- **Box 7 checkbox:** If the IRA/SEP/SIMPLE box is checked:
 - o Confirm with the taxpayer the type of IRA (traditional or Roth) and whether it is a Roth conversion
 - o A conversion from a traditional IRA to a Roth IRA requires completion of Part II of Form 8606, which makes the return *out-of-scope*
 - o Distribution from a converted Roth makes the return *out-of-scope* if any portion of the distribution is or could be taxable
 - Note that the 5-year rule applies to each conversion
- **Box 2a:**
 - o When an amount is entered in box 1, TaxSlayer automatically uses that to fill box 2a, with a note that the amount in box 2a can be changed.
 - If the amount that TaxSlayer enters in box 2a **does match** the amount in box 2a on the paper Form 1099-R, then the amount should be left as is; continue entering other information into TaxSlayer.
 - o If the amount that TaxSlayer enters in box 2 **does not match** box 2a on the Form 1099-R, then:
 - If the paper Form 1099-R has a *non-zero amount* in box 2a, enter that amount into TaxSlayer, in box 2a
 - If box 2a is a zero (not just blank), and in box 2b there is **no** checkmark for “Taxable amount not determined”, then the starting presumption should be that none of the distribution is taxable. This needs to be confirmed (focus on the amount in box 5 and the code in box 7, as discussed below.); if the amount is not taxable, enter zero into box 2a in TaxSlayer
 - If 2a is blank, box 2b will normally have a checkmark for “Taxable amount not determined”. Use the information below to determine what is taxable.
 - o If there is a question about what amount should be in box 2a:
 - Look at box 5, employee contributions. If the box 5 amount is the same as the box 1 amount, then none of the distribution is taxable, so box 2a on the TaxSlayer page should be changed to zero.
 - If box 5 is not helpful, then look at the table on [pages D-23 and D-24 of Pub 4012](#); see also [box 7](#), below, for information about specific codes
 - **Note:** Per the [AARP Foundation Tax-Aide Scope Manual](#), codes **6**, **U**, and **W** are in fact fully in-scope, and code **J** and code **T** *can* be in-scope.
 - The [Instructions for Form 1099-R](#) have a “Guide to Distribution Codes” which is more detailed than the table in Pub 4012
 - For code **T**, use the flow chart on page D-22 of Pub 4012 to determine taxability (if the distribution is taxable, the return is *out-of-scope*). **Note:** If, after completing the TaxSlayer page for the 1099-R, TaxSlayer displays a Form 8606 - Nondeductible IRAs page, the return is *out-of-scope*.
- **Box 5:** An amount in this box, *for a distribution*, normally results in box 2a being the difference between box 1 and box 5
 - o If this is a Total Distribution (box 2b will be so checked), then remaining employee contribution may appear in box 5
 - o If box 5 is greater than box 1, the distribution may be from an annuity, and the loss (the difference between box 1 and box 5) may be deducted if itemizing – see the section Schedule A – Miscellaneous Deductions (Lines 22, 23, and 28), starting on page [65](#).
- **Box 7 code:** Take care in entering the code shown on the Form 1099-R
 - o If multiple codes are shown (for example, “G4”), enter both codes
 - o Code **6** (tax-free Section 1035 exchange), code **Q** (Roth IRA qualified distribution), and code **W** (payment for a LTC contract) are not taxable; enter a zero in box 2a
 - For code **W**, even through the distribution involves a LTC cost, the amount cannot be claimed as a medical expense on Schedule A
 - o Code **J**: Follow the instructions on page D-24 of Pub 4012, revision date of October 25, 2016 or later, to determine whether the Form 1099-R is in scope, and if so, how to enter it into TaxSlayer
 - o Code **T** is used for a distribution from a Roth IRA if the participant has reached age 59½, but the 5-year holding period may not have been met. See [Pub 4012, page D-22](#), to determine if a Roth IRA distribution is in-scope (it is if *none* of the distribution is taxable)
 - o If entering code **G** or code **H** in box 7, see the two sections below – these are codes for direct rollovers

Federal Section - Income

- If code **1** or code **S** is entered into box 7, then after all information has been entered into the TaxSlayer page, and “Continue” is clicked, the **Form 1099-R Distribution Penalty** page will appear.
 - For the question “What type of plan did you receive this distribution from”, check “Retirement Plan”
 - For the second question, **determine if there is an exception to the penalty for early withdrawal (before the age of 59 1/2)**.
 - See the section 1099-R Form – Exceptions to Early Withdrawal Penalties on page **40**, below, for details on how to determine if the taxpayer can claim an exception to the penalty
 - **If there is an exception, check the box.** [Ignore the sentence “Not sure if your withdrawal qualifies to be exempt from the penalty?”]
 - Entering the exception code, and the exception amount, must be done *separately*, on the **Form 5329** page, as discussed in the next section. It is best to do that *immediately* after finishing the **Form 1099-R Distribution Penalty** page
 - Click “Continue” to finish with the penalty page
- **Box 9b**
 - If the client cashed in an annuity, they will have received a Form 1099-R with the amount they received
 - If the investment (in box 9b; may also be in box 5) is greater than the amount shown in box 1, the net loss can be claimed as a miscellaneous itemized deduction - see Schedule A – Miscellaneous Deductions (Lines 22, 23, and 28) on page **65**, below

1099-R Form – Exceptions to Early Withdrawal Penalties

- TaxSlayer automatically assesses an early withdrawal penalty for Form 1099-Rs with code **1** or code **S** in Box 7; these are codes used for a withdrawal prior to age 59½.
 - **CA Note:** There is also a 2.5% tax assessed by CA for early withdrawals; this shows on CA Form 3805P
- Exceptions to the penalty are listed in [Pub 4012, page H-2](#) and discussed on pages H-2a and H-2b [supplement of October 24, 2016]
 - For additional exceptions that apply to annuities, see [Pub 575, Pension and Annuity Income](#)
 - **Note:** For exception 08, qualified higher education expenses can include room and board. See [Pub 590-B, Distributions from Individual Retirement Arrangements](#), for details on that and other exceptions.
- If there is an exception to the penalty:
 - On the **Form 1099-R Distribution Penalty** page, the second box should have been checked, as discussed in the section immediately above
 - Go to Part I of the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution]
 - If the return is for a married couple, select whether you are completing this page for the taxpayer or the spouse
 - Enter the amount that is NOT subject to that penalty in the correct box, either SIMPLE [code S in box 7 of the Form 1099-R] or non-SIMPLE [code 1]
 - **Warning:** *TaxSlayer performs no error checking on the amount entered.* Make sure the amount entered is correct
 - Select the reason for exemption in the drop-down box
 - Click “Continue”
 - Go to Form 1040, Page 2 (via Summary/Print on the left navigation bar) and verify that Line 59 shows the amount expected (which will be zero if all distributions subject to the penalty have an exception)

1099-R Form – Transfer or Rollover

- A “transfer” is a DIRECT transfer of funds or securities from one qualified account to another. No money passes through the hands of the taxpayer. (This is also called a “direct rollover”.) The codes in box 7 are **G** and **H**
 - The taxpayer can do this as often as they wish, without penalty
 - Box 2a in TaxSlayer should be changed to **zero** for a code H transaction; for a code G transaction, the box 2a amount in TaxSlayer should be changed to match the amount on the paper Form 1099-G
 - In the “Rollover or Disability” section of **Form 1099-R**, check the box “Check here if all/part of the distribution was rolled over, and enter the rollover amount”. Then, in the dollar amount line, immediately below, enter an amount equal to what is on line 1
- A “rollover” is a distribution from a qualified account **to the taxpayer**, followed by a deposit of some or all of the distribution to another qualified account **WITHIN 60 DAYS**

- o Because rollovers have the same code in box 7 as regular distributions – specifically, code **1** or **7** – the only way to know about a rollover is when the taxpayer identifies one.
- o A taxpayer is limited to one rollover from an IRA in any 12-month period (regardless of how many accounts there are)
 - **Note:** The IRS began enforcing the once-a-year limit as of 2015
- o Rollovers require similar entries to that for transfers:
 - Box 2a should be changed to zero, unless the taxpayer kept some of the money (did not deposit it to a new retirement account); if so, enter the amount kept by the taxpayer in box 2a
 - In the “Rollover or Disability” section of **Form 1099-R**, check the box “Check here if all/part of the distribution was rolled over, and enter the rollover amount”. Then in the dollar amount line, immediately below, enter the amount that the taxpayer deposited in retirement account. (This amount, plus the amount in box 2a, *must* equal the box 1 amount)
- o **Note:** A conversion of a traditional IRA to a Roth IRA makes the return *out-of-scope*
- [Revenue Procedure 2016-47](#) explains a self-certification procedure designed to help recipients of retirement plan distributions who inadvertently miss the 60-day time limit for properly rolling these amounts into another retirement plan or IRA. Eligible taxpayers can qualify for a waiver of the 60-day time limit and avoid possible taxes and penalties on early distributions, if they meet certain circumstances. Taxpayers who missed the time limit will now ordinarily qualify for a waiver if one or more of 11 circumstances, listed in the revenue procedure, apply.

1099-R Form – Qualified Charitable Distribution

- The taxpayer may have made a Qualified Charitable Distribution (QCD)
 - o This involves the taxpayer directing the retirement account administrator to send a payment directly to a charity. Such a payment (distribution) is non-taxable, but the taxpayer does not get a charitable deduction.
 - The taxpayer should have written documentation
 - o The taxpayer must have been at least 70½ when the donation was made; the maximum in any single year is \$100,000
- For such cases:
 - o In box 2a, enter any amount that the taxpayer got from the retirement account administrator, for personal use, *separately* from the charitable gift. (This may be zero.)
 - o Enter the rest of the 1099-R information as normal; click “Continue”. At the warning screen, click “Continue”. Click “Continue” again to go to the **IRA/Pension Distributions** menu page. Select “Nontaxable Distributions”. Select the first checkbox, the QCD exception. Click “Continue”.

1099-R Form – Pensions and Annuities

- As mentioned above, Form 1099-R is used for two somewhat similar things: distributions from qualified retirement accounts (reported on Line 15 of Form 1040), and pensions and annuities. Distributions are covered in the section 1099-R Form - Distributions, on page [38](#), above
 - o Generally, if a Form 1099-R is for a *distribution*, then, near the box 7 code, the checkbox “IRA/SEP/SIMPLE” will be checked. However, for Roth distributions, this is not required
 - o Annuities and pensions will have, in box 7, one of the following codes: **3**, **4** (also used for distributions), **6**, **7** (also used for distributions), **D**, or code **F**
 - Code **D** is subject to income limits to be in-scope; see [page D-24 of Pub 4012](#);
 - For code **F**, see the information for [Box 3](#), below
 - o Form RRB-1099-R is for railroad retirement; follow the instructions in the section the discusses that form, on page [45](#), below
 - o The federal government issues the form CSA 1099-R, for pensions. This is a close variant of the standard Form 1099-R; the differences are noted in the section Office of Personnel Management (OPM) CSA 1099-R form, on page [44](#), below
- Box 2a: With pensions and annuities, the main issue is determining the correct amount to enter into box 2a. TaxSlayer’s default is to enter the same amount in box 2a as in box 1, but that is simply the default – it’s often incorrect
 - o If box 2a in TaxSlayer matches box 2a on the paper Form 1099-R, then continue by entering other information from the paper Form 1099-R.

Federal Section - Income

- o The most common reason to adjust the box 2a amount is because the taxpayer has contributed to a pension plan or annuity with after-tax dollars. If so, when receiving payments, the portion that represents the taxpayer's contribution is *not* taxable. That portion will be entered into box 5 on TaxSlayer. The total amount the taxpayer has contributed is shown in box 9b of the paper Form 1099-R.
 - If the paper Form 1099-R has a non-zero amount in box 2a, that amount should be entered in box 2a in TaxSlayer
 - If box 2a is blank on the paper form, then box 2b will normally have a checkmark for "Taxable amount not determined". Use the information below to determine what is taxable; normally this involves using the Simplified Method, as discussed in the next section. (Sometimes box 2a will say "Unknown".)
 - If box 2a is zero, this may be survivor benefits for a public service officer – see the section 1099-R Form – Public Service Officer Exceptions, on page [43](#), below. Alternatively, it may be that the amount distributed was
- Box 3: This box is used for reporting a capital gain related to a Charitable Gift Annuity (Code F in box 7)
 - o The difference between the distribution shown in box 1 and the capital gain shown in box 3 is ordinary income; enter that difference in box 2a
 - TaxSlayer instructions imply that TaxSlayer will make this calculation internally; as of the print date of this manual, *that is not true*. Enter the *difference* in box 2a, and check what TaxSlayer enters on line 16b of the Form 1040
 - o Manually enter the capital gain portion – go to the Capital Gains Transaction page [Federal Section > Enter Myself > Capital Gains and Losses (Schedule D > Schedule D Capital Gains > Capital Gains and Loss Item)]
 - The description is **FROM 1099-R**
 - For the date acquired, use the Alternate Option, and select "Various – Long Term"
 - For the date sold, enter a date for the current tax year
 - Sales price is the amount in box 3 of the Form 1099-R
 - The cost basis is "Did not receive Form 1099-B"
 - The cost is zero
 - Click "Continue"
 - o **Note:** This transaction will show on a Form 8949, in the print packet, as code is **F** (long-term, not reported on a Form 1099-B)
- Box 5: If the payer has calculated, in box 2a, the taxable amount of the pension or annuity, then generally the difference between boxes 1 and 2a will appear in box 5 of the paper form
 - o For Form CSA 1099-R from the Office of Personnel Management, see page [44](#), below
 - o If box 2a is blank, there is an amount in Box 5, and "Taxable amount not determined" has been checked on the Form 1099-R, then the Simplified Worksheet section must be completed – see the next section
- Box 7: If multiple codes are shown (for example, "4G"), enter both codes
 - o If there is **code 3** in box 7, determine if the taxpayer is (still) less than the minimum retirement age for the company paying the pension or annuity
 - If so, then check the box "Check here to report on Form 1040, Line 7" [below line 12]. That will place the pension on that line on the Form 1040, as wages, making the taxpayer eligible for EIC and other credits
 - Minimum retirement ages for federal employees can be found in [Pub 721](#); minimum retirement ages for [CALSTRS](#) and [CALPERS](#) annuitants is available on their respective websites.
 - For other employers, if the taxpayer does not know the minimum retirement age, *we generally cannot complete the return*. Ask the taxpayer to find out this information, and then return.
- Box 9b is the total employee contributions to the plan
 - o The annual recovery of basis or "investment in the contract" may appear in box 5
 - Caution: you cannot always tell if box 5 is recovery of employee contributions or something else unless it states so on the Form 1099-R or in an accompanying document
 - If the amount in box 5 is equal to box 1 minus box 2, that confirms that the box 5 amount is the annual recovery of the employees basis

1099-R Form - Simplified Method

- If the employee made after-tax contributions toward the retirement plan, a portion of the payment is not taxable

- o **Note:** If the starting date of the payments was prior to July 2, 1986 and there is no entry in Form 1099-R box 2a, the entire amount of the taxpayer's contribution probably would have been recovered under the "Three Year Rule"
 - The entire amount in box 1 should be treated as taxable
- To do the calculation for the amount of the distribution that can be excluded, five things are needed:
 - o The gross distribution amount for the year (box 1 of the paper Form 1099-R, box 7 of the RRB-1099-R)
 - o The annuity start date
 - This is the date of the first payment received. The payment might have been to a deceased spouse, if the spouse was the annuitant
 - o The birthdate of the annuitant (the person to whom the pension was first paid)
 - Again, this might be the birthdate of the deceased spouse.
 - o The number of months of payments in the current tax year [normally 12]
- If the the annuity start date is after July 1, 1986, Form 1099-R box 2a is blank, and there is a total employee contribution amount in box 9b, then use the Annuity Calculator at cotaxaide.org/tools/ to calculate the amount to enter in box 2a
 - o The taxpayer's name should be entered if the page is going to be printed for the taxpayer's records
 - o The spouse's birthday is entered only if this is a joint or survivor annuity
 - o After clicking "Clicking here to Calculate", the Annuity Calculator will display two boxes immediately below the section where information was entered. At this point, there is a choice:
 - Use the information in the left box to enter a dollar amount directly into box 2a of the **1099-R** page
 - Use the information in the right box to enter information into the **Simplified General Rule Worksheet**, which is reached by clicking the link just below box 2a on the **1099-R** page, then click continue
- *Do not use* TaxSlayer's **Simplified General Rule Worksheet** to directly calculate the amount for box 2a. Use it only to record information from the Annuity Calculator.
 - o *If* this worksheet is not being used at all – all that is being done is enter an amount from the Annuity Calculator directly into box 2a, then on the Annuity Calculator, click "Print the table" to document the calculations, and give the printed copy to the taxpayer to put in their records for the tax year.
- **CA Note:** If the annuity start date was after 7/1/1986 and before 1/1/1987, the 3-year rule could have been used for CA - even though it was not allowed for federal
 - o If so, make an adjustment in the State Section. Enter, as described in the section Manually Entering Income Differences on CA Schedule CA, on page **81**, an increase in taxable income of an amount equal to the federal simplified method basis recovered

1099-R Form – Public Service Officer Exceptions

- The PSO category includes a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew
- Health insurance or LTC premiums exception
 - o Confirm that the taxpayer was a PSO **before** retirement. If this condition is met, then the amount in box 2a can be reduced by up to \$3,000, based on the health and/or LTC insurance paid from the retirement plan
 - o The health/LTC amount may be in box 5 of the Form 1099-R or in a letter from the plan
 - Do not include this amount on Schedule A as a medical deduction
 - But: if the amount on the Form 1099-R exceeds \$3,000, the excess may be included as an itemized deduction
 - o How the reduction in the box 2a amount is made depends:
 - If the paper Form 1099-R has a dollar amount in box 2a, then subtract the health/LTC amount (again, to a maximum of \$3,000), and enter the adjusted amount in box 2a on the TaxSlayer page
 - If the amount in box 2a is being calculated using the simplified method, as discussed on page 42 above, the, in the annuity calculator, check the box at the top, just below the taxpayer name, and then enter the health/LTC amount on the line "Cost of insurance to exclude"
 - o Enter the rest of the 1099-R information as normal; click "Continue". At the warning screen, click "Continue". Click "Continue" again to go to the **IRA/Pension Distributions** menu page. Select "Nontaxable Distributions". Select the third checkbox, the PSO exception. Click "Continue".
 - o Create a note (per page **8**) that "Pension has PSO exclusion for health care"
- Survivor Benefits Exclusion

Federal Section - Income

- o Survivor benefits attributable to service by a public safety officer who was killed in the line of duty before January 1, 1997, are excludible from federal income tax
 - The taxpayer may receive a Form 1099-R with -0- taxable in box 2a
- o **CA Note:** CA does not conform to this provision and all benefits received are taxable
 - Manually enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below

1099-R Form - State Section

- Entering state information is **not** required if there is no CA tax withholding in box 12
 - o If there is CA tax withholding in box 12, enter the state, state ID, and state distribution amount
 - The state ID number is NOT the same as the federal ID number
 - Do not enter any dashes or blanks
 - If the State ID is blank on the paper Form 1099-R, enter six nines (999999)
- For the state distribution amount (box 14):
 - o If this is blank on the paper Form 1099-R, it is presumed to be the same as the federal taxable amount (box 2a)
 - o IF the amount on the paper Form 1099-R is **different** than the federal amount in box 2a, enter the state distribution amount from the paper Form 1099-R into box 14
 - **CA Note:** TaxSlayer does not automatically carry the difference in the distribution amount to CA Schedule CA, line 15 . Manually enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below.
- **CA Note:** CA follows the federal rules for taxability for all CA residents for employer plan distributions
 - o See the section IRA Basis Difference below, page **83**, if the taxpayer made contributions that were not deductible

Office of Personnel Management (OPM) CSA 1099-R form

- The OPM reports annuity payments using the CSA 1099-R form, 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 Copy B - File with Federal tax return		2014	OMB No. 1545-0119 Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit- Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S Federal Identification		Recipient's ID No. (Annuitant)		Account number (Retirement Claim No.)	
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums		PAID TO →		1. Gross distribution	
7. Distribution Code(s) 7-NONDISABILITY				2a. Taxable amount	
9b. Total Employee Contributions				4. Federal Income Tax Withheld	
				State 1	10. State Income Tax Withheld
				State 2	10. State Income Tax Withheld

- Box 2 – if the annuity starting date is after July 1, 1986, but before November 19, 1996, the taxable amount box may show "unknown"
 - o In this case complete the simplified method worksheet as detailed above
- Box 5 on this form can be:
 - o The amount of the employee's basis recovered this year (CSA 1099-R box 1 minus box 2), OR
 - o Health insurance premiums that are deductible as medical on *A Detail*; the amount will include only premiums for FEHB/FEP and Medicare Part B and/or Part D
 - o If the retiree is having dental, vision, or LTC insurance premiums deducted, **they will not be included in box 5**
 - o The only way to see these other premiums is to see the taxpayer's 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
 - 45 is a catchall that includes LTC

- Voluntary Contributions - If the taxpayer is receiving additional payments resulting from voluntary contributions to the retirement fund, the additional portion of the annuity due to the voluntary contributions must be reported separately for tax purposes and is shown at the bottom of the Form 1099-R statement
- If additional information is needed, see:
 - [Pub 721, Tax Guide to U.S. Civil Service Retirement Benefits](#)
 - [The CSA 1099R – Everything you need to know ...](#)

RRB-1099-R – Green Form/“Non-Social Security and Tier 2”

- Railroad retirement pay is treated as a pension or annuity on the federal tax return, per [Pub 575, Pension and Annuity Income](#)
 - **CA Note:** This income is not taxed by California. TaxSlayer makes the adjustment on line 16 of CA Schedule CA

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE		2014		ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD	
UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092		3. Employee Contributions		COPY C - FOR RECIPIENT'S RECORDS. THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		4. Contributory Amount Paid			
1. Claim Number and Pwava Code		5. Vested Dual Benefit			
2. Recipient's Identification Number		6. Supplemental Annuity			
Recipient's Name, Street Address, City, State, and Zip Code		7. Total Gross Paid			
		8. Repayments			
		9. Federal Income Tax Withheld			
		10. Rate of Tax			
		11. Country			
		12. Medicare Premium Total			

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

- TaxSlayer has a separate page, **RRB-1099-R**, to enter railroad retirement pay. [Federal Section > Enter Myself > IRA/Pension Distributions (1099-R, 1099-SSA) > RRB-1099-R]. Boxes 3, 7, and 9 are self-explanatory. For the rest of the page:
 - The Payer's ID should be 36-3314600, on the paper Form RRB-1099-R
 - For MFJ returns, specify whether the taxpayer or spouse is the recipient
 - If the recipient address in TaxSlayer doesn't match the address on the paper Form RRB-1099-R, change the TaxSlayer information to match
 - **Box 7a**, Taxable Amount, may require using the simplified method. This is discussed in the section 1099-R Form - Simplified Method, on page 42, above
 - For **box 12**, if there is an amount on the paper Form RRB-1099-R, this can be used as a medical deduction, if the taxpayer is itemizing – see the section Schedule A - Medical and Dental Expenses (Line 1), on page 57, below
 - On the bottom right of the TaxSlayer page is a checkbox, “Check here to report on Form 1040, Line 7”. Check that box **only** if the recipient is disabled and is below the minimum retirement age as of December 31 of the tax year

Foreign Government Pensions

- Foreign government pensions, except for Canadian and German Social Security (see the section Canadian or German Social Security, below, page 49), make the return **out-of-scope**
- A Canadian RRSP (similar to an IRA) makes the return **out-of-scope**

LINE 17 - RENTAL REAL ESTATE AND ROYALTIES

- Rentals and royalties are both reported on a tax return using a Schedule E. The total for all Schedule E's is put on Line 17 of the Form 1040
 - If the taxpayer wants to claim associated expenses on Schedule E, then the return is **out-of-scope**. Schedule E's (if in-scope) have only income amounts.
- If rental or royalty income is reported on a Form 1065 (Schedule K-1 form), that income is **not** entered directly on a Schedule E

Federal Section - Income

- o **Note:** If the K-1 form has rental income or loss (box 13), the return is *out-of-scope*
- o If the K-1 form has royalty income, where that is entered in TaxSlayer depends on whether or not the royalties are related to the **personal services** of the taxpayer; for example, if the taxpayer is a self-employed writer, inventor, or artist
 - If related to personal services, report the income on a Schedule C (see the section Schedule C Income not on a 1099-MISC, or not in Box 7 of a 1099-MISC, on page **31**, above); **do not** use the TaxSlayer page for entering K-1s.
 - If **not related**, enter the K-1 form as discussed in the section Simple Form K-1s and Prepaid Funeral Plans, on page **28**, above
- If rental or royalty income is reported on a Form 1099-MISC, that income is **not** entered directly on a Schedule E
 - o As with the K-1 form, if the Form 1099-MISC has an amount for royalties (box 2), then how that is entered in TaxSlayer depends on whether or not the royalties are related to the **personal services** of the taxpayer: enter the income either directly into a Schedule C (if related), or into the TaxSlayer page specifically for K-1's (if not related)
 - o Amounts in box 1, Rents, should be entered as discussed in the section Simple Form K-1s and Prepaid Funeral Plans, on page **28**, above
- Cash payments for rent for which there is no Form 1099-MISC may be in-scope; there cannot be any associated expenses
 - o Rental of land (for farming, camping, etc.) is in-scope
 - **Note:** Farm rental income which is based on crops or livestock produced by the tenant (share-rent) requires either Form 4835, Farm Rental Income and Expenses, or Schedule F; either means that the return is *out-of-scope*
 - o Rental income involving buildings, even if as minor as an apartment over a garage or a room in a home, make the return *out-of-scope* (but see notes 1 and 2, below) because such income always involves the associated expense of depreciation, even if not claimed. (When depreciation is involved, the taxpayer is almost always better off going to a paid preparer, or using tax-preparation software, in order to claim depreciation expense.)
 - **Note 1:** As described in [Chapter 5 of Pub 527, Residential Rental Property](#), if a taxpayer's home is rented for less than 15 days during the tax year, such rental income can be totally excluded from their tax return. (In the unlikely event that a Form 1099-MISC is received, see "Reversing a Form 1099-MISC", below.)
 - **Note 2:** Rental income from sources such as a home is **in-scope for military returns, with Military certification**.
 - **Note 3:** Income from the sharing of housing through Airbnb and similar companies may or may not be rental income, and that determination makes the return *out-of-scope*. Recommend that the taxpayer go to a paid preparer or use tax-preparation software.
 - o Income from renting things that one owns, other than a home, should be reported on a Schedule C, not a Schedule E.
- To create one or more Schedule E's, from the **Income** menu page in the Federal Section, click "Rents and Royalties (Schedule E)"
 - o On the **Schedule E Required Information** page, if the box is checked, then the return is *out-of-scope*. (Otherwise, click "Continue".)
 - o If a K-1 form or Form 1099-MISC for royalties or rentals was previously entered in TaxSlayer, but not associated with a Schedule E, then TaxSlayer will create a Schedule and associate that information. Nothing else will be on that Schedule E. The new Schedule E will be listed on the **Schedule E Rental/Royalty** page. Click "Edit" to begin adding more information to the new Schedule E.
 - o On the **Schedule E Rentals and Royalties** menu page, click "Rent and Royalty Basic Information" to go to the **Schedule E Rent and Royalty Information** page
 - As mentioned earlier, expenses on a Schedule E are *out-of-scope*, so there is no reason to select "Depreciation", "Expenses", or "Car and Truck Expenses"
 - o For rentals, enter the type (as discussed above, anything but "Land" is probably *out-of-scope*), the property address, and the number of days the property was rented at fair rental value
 - o For royalties, the type is (not surprisingly) "Royalties"; use the taxpayer's home address as the property address

- o Income received on a Form 1099-MISC or a K-1 form is entered separately; after being entered, it will show separately on the Schedule E.
 - Such income is entered on the page **Form 1099-MISC** (see the section Form 1099-MISC for a Schedule C on page **31**, above) and from the **Schedule K-1** menu page (see the section Simple Form K-1s and Prepaid Funeral Plans, on page **28**, above), respectively.
- o Cash payments for rent should be entered on the “Rental payments received”; **do not include on this line any payments made on a Form 1099-MISC or a K-1 form.**
- **Reversing a Form 1099-MISC:** If a taxpayer’s home is rented for less than 15 days during the tax year, such rental income can be totally excluded from their tax return. In the unlikely event that a Form 1099-MISC is received, enter it into TaxSlayer, to match IRS records, and then, on the Schedule E where the rental income is recorded, enter a matching amount on the line “Refunds, Returns & Allowances”, so that the net income on the Schedule E is zero.

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

LINE 19 - UNEMPLOYMENT COMPENSATION

- Unemployment compensation is fully taxable on the federal return
- If the taxpayer has received a Form 1099-G (the generic title is “Certain Government Payments”, but this may vary by state), go to the **Unemployment Income** page [Federal Section > Enter Myself > Income > Unemployment Compensation > Add or Edit a 1099-G]. Complete the form:
 - o Check the appropriate box at the top to indicate whether the payment was made to the Taxpayer or the Spouse
 - o Compare the recipient’s address as shown on the page to the address on the paper Form 1099-G. If they are different, change the address on the TaxSlayer page
 - o Do not enter anything in the State Information section unless there was state tax withheld
- **CA Note:** The California form has two parts: Unemployment and Family Leave
 - o If there are dollar amounts on both parts, add a second **Unemployment Income** page to enter the Family Leave dollar amount
 - o Both are reported on Line 19 of Form 1040 as unemployment compensation
- Amounts repaid are reported on a separate page, **Repayment of Unemployment** [Federal Section > Enter Myself > Income > Unemployment Compensation]
 - o Amounts repaid during the same year that benefits were received will reduce the taxable income on Line 19 of Form 1040
 - o Any amount repaid for a **prior year** must be deducted on Schedule A, as a miscellaneous deduction (subject to 2% floor if \$3,000 or less) and cannot offset the amount received for the current year
- **CA Note:** Unemployment and family leave payments are NOT taxable by CA
 - o TaxSlayer makes the adjustment automatically on California Schedule CA

LINE 20 - SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

- Up to 85% of Social Security payments may be taxed on the federal return
- Social Security payments, issued on a SSA-1099, and Railroad tier 1 benefits, issued on a Form RRB-1099 (“blue form” – see image, below), are treated similarly on the federal tax return; unless otherwise specified, the term “Social Security payments” in this section refers to *both*.
 - o Social Security Disability Insurance (SSDI) payments are treated, for tax purposes, as regular Social Security payments. A Form SSA-1099 is issued for SSDI.
- Other payments made by the Social Security Administration are treated differently
 - o Benefits received by children of a deceased taxpayer are NOT taxable on a parent’s return
 - o Social Security death benefits (a maximum of \$255) received by the spouse or children of a deceased taxpayer are NOT taxable
 - o Supplemental Security Income (SSI) payments are NOT taxable and the taxpayer should not have received a SSA-1099 for such payments
- Computationally, if AGI plus tax-exempt income plus one-half of Social Security payments is less than \$25,000 (\$32,000 for MFJ), **none** of the Social Security payments is subject to tax. Nevertheless, all Social Security payments must be entered into TaxSlayer when a return is being prepared.
- Social Security payments are entered on the **Social Security SSA-1099** page

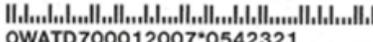
Federal Section - Income

- o Both taxpayer and spouse are reported on the same page
- o Enter the amount in box 5 of the SSA-1099 and box 5 of the RRB-1099 (blue form) on the line “Taxpayer's Social Security Benefit”,
 - If the amount is negative, the return is *out-of-scope*
 - If there is more than one paper form for a person, combine amounts on all paper forms to see if the amount is positive or negative. If positive, use the net positive number
- o Enter the total amount of **all** Medicare premiums on a paper form; enter that on the line “Taxpayer's Medicare Premiums”
- o Enter any federal tax withheld (box 6 of the SSA-1099, box 10 of the RRB-1099) on the appropriate lines
- TaxSlayer will calculate automatically, and place the taxable amount, if any, on Form 1040, Page 1, box 20b
- **Note:** If a taxpayer is missing their SSA-1099, it can be reconstructed from the equivalent 2015 form: there was no cost-of-living adjustment for 2016, so the 2015 and 2016 benefits will normally be the same
- **CA Note:** Neither Social Security payments nor Railroad tier 1 payments are taxed by California. TaxSlayer makes the adjustment automatically on CA Schedule CA, line 20

RRB-1099 – Blue Form/“Tier 1 Social Security equivalent”

Amounts on the RRB-1099	Enter in TaxSlayer on Social Security SSA-1099 page
Box 5	Equivalent to Social Security payments, for taxpayer or spouse
Box 10	Federal tax withheld for taxpayer or spouse
Box 11	Medicare total for taxpayer or spouse; TaxSlayer carries to Schedule A

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		2014		PAYMENTS BY THE RAILROAD RETIREMENT BOARD	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600 1. Claim Number and Payee Code		3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006		COPY C - FOR RECIPIENT'S RECORDS. THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE	
2. Recipient's Identification Number		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006			
Recipient's Name, Street Address, City, State, and Zip Code  OWATD700012007*0542321 ANNA M DONLY ... 15 CONDI AV SAN FRANCISCO CA 94126		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006			
01 188 064358		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			

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

Lump Sum Payments of Social Security

- When some of the Social Security payments received in the current year are attributable to one or more prior year, that information will be stated in the section “DESCRIPTION OF AMOUNT IN BOX 3” on the SSA-1099 form. In this situation, the preparer may be able to do an alternate calculation of the amount that is taxable on the federal return, benefiting the taxpayer
 - o Total Social Security payments received (box 5 of the SSA-1099) are still entered as described above
 - o **If, after all income in the Federal Section has been entered, Line 20b on the Form 1040 is zero, STOP** – it is not necessary to complete the lump-sum payment worksheet in TaxSlayer.
 - o **If the taxpayer does not have tax returns for the prior year(s)** for which the retroactive Social Security benefits were received, it is not possible to complete the lump-sum payment worksheet in TaxSlayer
- If line 20b on the Form 1040 is **not** zero, AND the prior year tax return(s) **is/are** available:
 - o On the **Social Security SSA-1099** page, click “Begin Worksheet”
 - o On the **Social Security Lump-Sum Payment** page:
 - Select the year for which retroactive payments were received (separate worksheets are done if there is more than one prior year for which retroactive benefits were received)
 - “SSA Payments received in Earlier Year” is the amount in box 20a of the Form 1040 for the prior year
 - “Portion of this years SSA for Earlier year” is the amount on this year’s SSA-1099 form that is stated as being retroactive benefits for the prior year being entered into TaxSlayer

- Calculate the “Modified Adjusted Gross Income for Earlier Year”: add, to the AGI on Line 37 of the prior year Form 1040, any amount on that same form for tax-exempt interest (box 8b), the student loan interest deduction (Line 33), and the tuition and fees adjustment (Line 34)
- “Taxable Benefits Reported in Earlier Year” is the amount in box 20b of the Form 1040 for the prior year
- Click “Continue to finish”; if there is another previous year for which retroactive benefits were paid on the 1099-SSA form, click the “Add” button to complete another **Social Security Lump-Sum Payment** page
- The TaxSlayer print package will contain the worksheets for all years

Canadian or German Social Security

- For U.S. taxpayers, Canadian or German Social Security are treated the same as U.S. Social Security
 - Canadian versions are named the Canada Pension Plan (CPP), the Quebec Pension Plan (QPP), and Old Age Security (OAS)
 - Take the amount reported in Canadian dollars, or in euros (Germany), and convert to dollars
 - The IRS publishes “Yearly Average Currency Exchange Rates”: [irs.gov/businesses/small/international/article/0,,id=206089,00.html](https://www.irs.gov/businesses/small/international/article/0,,id=206089,00.html)
 - Other currency exchange rate sources are
 - oanda.com/currency/historical-rates/
 - xe.com/currencytables/
 - [X-rates.com](https://x-rates.com) (click on “Historic Lookup”)
 - Enter the converted dollar amount on the **Social Security SSA-1099** page, as “Taxpayer's Social Security Benefit”
- **CA Note:** These foreign government pensions **are taxable** on the California return
 - TaxSlayer does **not** make the necessary adjustment. In the State Section, enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below.

LINE 21 - OTHER INCOME

- Line 21 of the Form 1040 is used to report any income not reported elsewhere in the return, such as gambling winnings, prizes, awards, jury duty pay, Alaska Permanent Fund dividends, and recovery of itemized deduction
 - **Note:** Activities that generate income and offsetting expenses but do not meet the criteria of being for income or profit (for example, coin collecting) are classified by the IRS as a **hobby** and make the return **out-of-scope**. (Offsetting expenses are allowable on Schedule A, but are similarly **out-of-scope**.)

Gambling Winnings - Form W-2G

- If the taxpayer has a Form W-2G, go to the **W-2G Gambling Winning** page [Federal Section > Enter Myself > Other Income > Gambling Winnings (W-2G)]
 - Check the box for Taxpayer or Spouse
 - If the Payee’s Address information does not match the information on the paper Form W-2G, change the information in TaxSlayer
 - The Payer’s federal ID number (EIN) is required
 - If TaxSlayer fills in the rest of the Payer Information section, verify that the payer’s name and address match the Form W-2G exactly; if not, make changes
 - Enter information in the first four lines of the “Winnings Information” section (all are required entries)
 - As stated on the TaxSlayer page, do **not** enter information on the four state-related lines in the “Winnings Information” section, unless there is withholding
 - **CA Note:** If the “State Tax Withheld” line has an amount, then the State ID number is **required** to avoid a CA reject of the state e-filed return
 - Other information on the page is not required, and it is recommended that it be left blank
- If there is more than one paper Form W-2G, click the “Add” button to add another **W-2G Gambling Winning** page
- If the taxpayer wants to report gambling winnings that are *not* on a Form W-2G, these winnings are entered on the **Other Income** page in TaxSlayer [Federal Section > Enter Myself > Other Income > Other Income Not Reported Elsewhere, or link from Line 21 on the Form 1040, from the
 - For the description, enter “Gambling - not on W-2G”

Federal Section - Income

- **CA Note: California Lottery winnings** are not taxed by CA. If any such winnings are reported in the Federal Section, then in the State Section, go to the **Subtractions from Income** page, select “California Lottery Winnings”, and enter the amount of those winnings.
- **CA Note: Indian tribal winnings** reported may require special treatment
 - Winnings reported on a Form W-2G from an Indian casino are exempt from CA taxation IF (a) the individual is an enrolled member of the Indian tribe on whose land the casino is located, and (b) lived on that tribe’s land (note that the tribe may have land at several locations; it is not necessary to live where the casino is located)
 - If the winnings are exempt:
 - In the State Section, enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below.
 - If the taxpayer is itemizing on the federal return, and if the taxpayer has entered any losses to offset the Indian tribal winnings on line 28 of Schedule A, then make an adjustment – a subtraction – to the CA itemized deduction amount – see Deductions Treated Differently by CA, on page **84**, below.

Gambling Losses

- Gambling losses can be reported on a Form 1040, but **the amount of losses reported cannot be higher than the amount of winning reported**
- The taxpayer is responsible for having *written substantiation* for the amount claimed for losses.
- Gambling losses are reported on Schedule A, as itemized deductions; they show up on line 28 of Schedule A. To enter these, *for winnings reported on Form W2-G's*, go to **Schedule A - Miscellaneous Deductions** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Miscellaneous Deductions], and enter the amount on the line “Gambling losses to the extent of gambling winnings”
 - **Note:** Gambling losses reported on Schedule A only have value to the taxpayer to the extent that the taxpayer itemizes. If the taxpayer takes the standard deduction, the reported losses have no value
- If gambling winnings **not** on a paper Form W-2G were reported (see the section above), then any offsetting losses for such winnings must be reported *separately* on Schedule A
 - Go to the **Schedule A Other Expenses** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Miscellaneous Deductions > Add/Edit Miscellaneous Deductions that are not listed above; click on “Add Additional”]
 - In the description field, enter “Loss - income not on W-2G”
- **CA Note:** If gambling losses include any California Lottery losses, make an adjustment to remove such losses from the CA return
 - In the State Section, make a subtraction to the CA itemized deduction amount in the amount of these reported losses– see Deductions Treated Differently by CA, on page **84**, below.

1099-MISC Income on Line 21

- The procedure for entering a paper 1099-MISC document into TaxSlayer, when the income is to go on Line 21, “Other income”, of Form 1040, is described in the section Form 1099-MISC for a Schedule C, on page **31**, above
- **CA Note: Indian tribal income** may require special treatment on the CA return
 - An amount in box 3 of a Form 1099-MISC can represent a portion of the profit from a casino or other business on tribal lands. This is always taxable on the federal return
 - Indian Tribal Income is exempt from CA taxation **ONLY IF** the recipient is (a) an enrolled member of the Indian tribe that issued the 1099-MISC (presumably yes); and (b) lived on that tribe’s land
 - If exempt for CA, a manual adjustment is required in the State Section, described in the section Manually Entering Income Differences on CA Schedule CA on page **81**, below.

Payments From Qualified Education Program - Form 1099-Q

- Form 1099-Q is used to report gross distributions from a qualified tuition program (529 plan) or a Coverdell ESA
 - If, in box 5, “Coverdell ESA” is checked, then the return is *out-of-scope*
- If these distributions were fully used for qualified expenses, they are not taxable, and the return is in-scope
 - Starting with tax year 2015, qualified expenses also include the student’s expenses for computer equipment, software, and Internet access, as well as tuition and fees
 - Expenses used to offset distributions cannot be used elsewhere in the tax return

- If the distribution exceeds the amount of qualified expenses, the return is *out-of-scope*

Distributions from LTC Plans-Form 1099-LTC

- If the taxpayer has a Form 1099-LTC, “Long-Term Care and Accelerated Death”, go to the **Form 8853 - Medical Savings Account** page [Federal Section > Deductions > Enter Myself > Adjustments > Medical Savings Account]
- Go to the “Long Term Care (LTC) Insurance Contracts” section of the page.
 - Check the box for either Taxpayer or Spouse, based on the **policyholder’s** name on the Form 1099-LTC, **not** the name of the insured
 - Enter the SSN and name of the insured
 - If information from the taxpayer shows that the first box should be checked, the return is *out-of-scope*: recommend that the taxpayer go to a paid preparer or use tax-preparation software. [The “you” in the sentence to the right of the checkbox is the *policyholder*.]
 - Enter the number of days in the LTC period
- Check the box if the insured individual was determined to be terminally ill (defined being certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months of the date of certification) [**Note**: this information may be in box 5 of the Form 1099-LTC.]
 - If there is an amount in box 2, “Accelerated death benefits paid”, on the Form 1099-LTC, then this must be split *if* any accelerated death benefits were paid *before* the insured was declared to be terminally ill
 - If no such benefits were paid before the declaration was made, and there is no amount in box 1 of the Form 1099-LTC, then no further entries are required in this TaxSlayer form; click “Continue”
 - If such benefits *were* paid before the declaration was made, then the dollar amount paid should be entered on the line “Accelerated death benefits received on a per diem”
 - If there is no amount in box 1 of the Form 1099-LTC, click “Continue”; otherwise, follow the instructions in the next paragraph
- For the amount in box 1 of the Form 1099-LTC:
 - If “Reimbursed amount” is checked in box 3, enter the amount from box 1 into the line “Total reimbursements received or that you expect to receive”. No further entries are needed.
 - If “Per diem” is checked in box 3, enter the amount from box 1 into the line “Gross LTC payments received on a per diem basis”, and then:
 - IF box 4 on Form 1099-LTC is checked, enter the same amount into the line “Portion of ‘Gross LTC payments’ above that was from qualified LTC insurance contracts”
 - Enter the number of days covered by the per diem (this number must be provided by the taxpayer)
 - IF the taxpayer’s actual costs on qualified LTC services, during the period that per diem was being received, exceeded the 2016 tax-free threshold of \$340 per day, enter the amount on the second-to-last line of the TaxSlayer page. Otherwise, leave the line blank. (If necessary, see the [Instructions for Form 8853](#) for the definition of qualified LTC costs.)
- **Note**: *Unreimbursed* medical expenses for long-term care can be deducted on Schedule A, if the taxpayer itemizes and has sufficient medical expenses to exceed the 7.5% or 10% threshold. (If receiving per diem, the taxpayer would have to spend more than the per diem amount in order to have any unreimbursed expenses.)

HSA Distributions

- **Note**: HSAs are *out-of-scope* unless the preparer and reviewer are certified in the area
- If a distribution is received on a Form 1099-SA:
 - Form 8889 must be prepared and a tax return must be filed even if there is no other income
 - Go to the **Form 8889 - Health Savings Account** page [Federal Section > Deductions > Enter Myself > Adjustments > Health Savings Account]
- Get information from the taxpayer to complete the type of coverage, and the second and third boxes in the “HSA Distributions” section.
 - Unreimbursed expenses from a prior year (but after the HSA was set up) are qualified medical expenses, IF they were not used as a Schedule A deduction. If the taxpayer wants to count expenses from a prior year as qualified medical expenses, the taxpayer must have good records, to avoid double-counting.
- If the entire distribution amount was used for qualified medical expense, or rolled over, there is no taxable amount, and no exception is needed; the TaxSlayer form is complete. But **if the second and third amounts in the “HSA Distributions” section, totaled, are less than the first amount, then the difference is taxable and there is a potential penalty.**

Federal Section - Income

- o TaxSlayer puts the difference on Line 21 of the Form 1040, as Other Income
- o For the penalty:
- o Check the exceptions box *if* the excess distribution (the difference) was made after the beneficiary become disabled, became age 65, or died.
- o If there is no exception, there will also be a 20% additional tax. TaxSlayer carries this amount to Form 1040, Page 2, Line 62, Taxes.
- **Note:** If a distribution is used for qualified medical expenses, those expenses cannot be put on Schedule A.
- **CA Note:** CA does not recognize HSA contributions, distributions, or expense deductions – see the section Health Savings Accounts in CA, below, page 84.

Cancellation of Debt

- Cancellation of Debt (COD) from non-business credit card debt is part of the advanced certification and is in-scope for Tax-Aide. **Only** non-business credit card debt) is in-scope for 2015 and 2016.
 - o Form 1099-Cs for credit card debt, where there is an amount in box 3 (interest), *are* in-scope for tax year 2016.
 - o **CA Note:** CA does not conform to federal rules with regard to cancellation of debt for a mortgage. So, although this type of debt *could* be within scope *if approved by local leadership*, such an exception is **not allowed** at California Tax-Aide sites because the forgiveness has the potential to be treated differently on federal and state tax returns.
 - The related TaxSlayer page – *not to be used* – is **Reduction of Tax Attributes**, which is reached via the “Exclusions (Form 982) link on the **Cancellation of Debts** menu page.
- Cancellation of credit card debt results in taxable income unless an exception applies – see [Pub 4012, page D-46](#), and, if more information is needed, [Pub 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments](#)
 - o **Note:** On Form 1099-C, the code for bankruptcy, in box 6, is “A”.
- If the taxpayer elects to use an exception, such as the following, to make the COD amount non-taxable, then the return is **out-of-scope**:
 - o Insolvency at the time of the debt forgiveness
 - o Debt incurred for deductible items that have not been deducted or for which less than full tax benefit was received
- To enter the amount of credit card debt that was cancelled, as taxable income, go to **Form 1099-C** [Income > Less Common Income > Cancellation of Debts > Cancellation of Debt (Form 1099-C)]; this is described in [Pub 4012, on page D-48](#)
 - o You should *confirm with the taxpayer* that the taxpayer agrees with reporting this amount as income *before* entering it into TaxSlayer.
- **Note:** While it is true that any cancellation of debt, whether or not a Form 1099-C was received, must be reported as income (to be in-scope), it’s also true that credit card companies often delay in issuing that form. The problem with reporting income *without* the form, if the taxpayer raises the matter, is that the credit card company might issue a Form 1099-C in a subsequent year, if the amount involved is \$600 or more.
 - o If a Form 1099-C *is* issued in a subsequent year for an amount reported in the current year, the earlier return will need to be amended to remove the income, and that income will then need to be reported again, for the tax year which is on the Form 1099-C.

Scholarships, Fellowships & Grants – Form 1098-T

- See [page J-1 of Pub 4012](#) regarding the tax treatment of scholarships and fellowships.
- If income, the income is reportable on the tax return of the person receiving the scholarship, even if that person is the dependent of another taxpayer
 - o See [page A-2 of Pub 4012](#) for filing requirements for dependents
 - o If a child under the age of 18 has more than \$2,100 of unearned income, the child is subject to the “Kiddie Tax”. Both Form 8814, to pay this tax on the parent’s tax return, and Form 8615, to pay this tax on the child’s tax return, are **out-of-scope**; recommend that the taxpayer go to a paid tax preparer or use tax-preparation software
- If box 6, “Adjustments to scholarships or grants for a prior year, has an amount in it, the return is **out-of-scope**.
 - o If the scholarship is for a dependent, the parent’s return is also **out-of-scope**.
- For any scholarship, the taxpayer must determine if the scholarship/grant amount on the 1098-T was **greater than** qualified educational expenses that can be used to reduce the taxable amount of the scholarship.

- o If the total scholarship amount exceeds offsetting expenses, enter the net (taxable) scholarship amount on the **Scholarships and Grants** page [Federal Section > Enter Myself > Other Income > Other Compensation]
 - Expenses used to reduce the taxable amount of a scholarship **cannot** also be used to claim a credit, or as deductible expense.
 - Remember that the taxable scholarship amount is reported on the return of the person **receiving** the scholarship, even though educational expenses (if not used as an offset to the scholarship amount) can be reported on the return of a parent.
- o The taxable scholarship amount **MUST** be reduced for tuition, fees, books and equipment **if** the scholarship is awarded specifically to cover these expenses
- o The taxable scholarship amount **MAY** be reduced for qualified educational expenses **if** the scholarship is not specific; the exact amount is a taxpayer decision (based on what is the best tax result)
- o Form 1098-T shows only tuition and school-billed fees. Normally the amount spent for books and equipment must be determined by the taxpayer
- o Caution is needed as expenses may be billed in one year but paid in another; the year of payment determines when the expenses can be claimed on a tax return
 - The student should be able to access their student financial account records online, if they did not bring written records.
 - Box 2, “Amounts billed”, on Form 1098-T, **cannot** be used as proof of expenses. (The form may eventually be being changed to report only payments received, but as of 2016, box 2 is for amounts billed.)
- Worksheet 1-1 on [page J-1 of Pub 4012](#) can be used to determine the taxable portion, which requires asking the taxpayer to determine how the scholarship money was used
 - o **Reminder:** An education credit or deduction cannot be claimed for any expense used to reduce the taxable scholarship amount.
- To enter a scholarship amount that is *not* offset by qualified expenses, go to the **Scholarships and Grants** page [Federal Section > Enter Myself > Other Income > Other Income Not Reported Elsewhere]
 - o **Note:** There is a single entry for the taxpayer (and, if MFJ, one for the spouse). If there are multiple scholarships being reported as income, add a note (per page 8)
- **Note:** Student loans are never income. Expenses paid with borrowed funds, such as student loans, **are** eligible for credit or deduction, if the regular requirements are met.
 - o Also note that borrowed money, when spent, is a type of support, and affects the determination of whether a person can be claimed as a dependent. (The person liable for repaying a loan is considered to the person providing support.)

Other Income Without a Supporting IRS Form

- This includes poll worker income, medical study income, and jury duty pay
- Go to the **Other Income** page [Federal Section > Enter Myself > Other Income > Other Compensation > and enter this income

ADJUSTMENTS TO INCOME

LINE 23 - EDUCATOR EXPENSES

- This adjustment is limited to taxpayers and spouses who are a K-12 teacher, counselor, principal, or aide, and who works in a school for at least 900 hours per school year
- Refer to [Pub 4012, page E-2](#), for rules
- The amount (up to \$250 for each taxpayer who is an educator) is entered on the **Educator Expense** page [Federal Section > Deductions > Enter Myself > Adjustments]
- Expenses incurred *above* the amount entered on the **Educator Expense** page can be included as a deduction on line 21 of Schedule A, as an unreimbursed employee expenses, *if itemizing*, but is subject to the 2% of AGI haircut/threshold
- **CA Note:** The Line 23 amount is NOT recognized by CA as an adjustment to income
 - o TaxSlayer automatically adjusts the CA return so that it ignores the entry on Form 1040, Page 1, line 23 (the adjustment is posted to CA Schedule CA, line 23)

Adjustments to Income

- o The amount can be claimed as an adjustment to the federal Schedule A, as an unreimbursed employee expense for CA purposes, *if* the taxpayer is itemizing on the CA return
 - If any part of the amount will exceed the 2% of AGI reduction for line 21 of Schedule A, then make an adjustment – positive – to the CA itemized deduction amount – see Deductions Treated Differently by CA, on page **84**, below. (The adjustment should be just for the amount that exceeded 2% of AGI.)

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

The amount on this line comes from specific items on Form 2106. In general this line is *out-of-scope*; there is a limited exception for military returns, if counselors have Military certification

LINE 25 - HEALTH SAVINGS ACCOUNT

Note: HSAs are *out-of-scope* unless the preparer and reviewer are both certified to do HSAs

- Information about HSA contributions is in [Pub 4012, on pages E-3 and E-4](#); more information is in [Pub 969](#)
 - o Taxpayers covered by Medicare are not eligible to contribute to a HSA, even if they have an open HSA account.
- Enter the amount contributed to an HSA *by the taxpayer* in the first dollar amount field on the **Form 8889 - Health Savings Account** page [Federal Section > Deductions > Enter Myself > Adjustments > Health Savings Account]
 - o The taxpayer may provide [Form 5498-SA](#), which shows the amount of contributions during the tax year. If they do not have this form, the taxpayer's word is sufficient.
 - o Contributions designated for 2016 may be made up to April 18, 2017.
 - o **Note:** Any contribution in excess of the amount allowed as a deduction is subject to a 6% additional tax, assessed on Form 5329, Part VII, which makes the return *out-of-scope*
- Amounts contributed by an *employer* are shown on the Form W-2 as code W in box 12. Information entered in the **W-2** page in TaxSlayer is *not* displayed on the 8889 input page, which says "We will automatically pull your employer contributions from your W-2. DO NOT enter amounts from your W-2."
 - o The information from the **W-2** page does show on line 9 of Part I of the printed Form 8889, in the PDF of the taxpayer return.
- **CA Note:** CA does not recognize HSAs – see Health Savings Accounts in CA below, page **84**. TaxSlayer automatically makes the adjustment on line 25 of CA Schedule CA.

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

There is a limited exception to the scope limitation, for military returns, if counselors have Military certification

LINE 27 - DEDUCTIBLE PART OF SELF EMPLOYMENT TAX

- This amount is carried by TaxSlayer from Schedule SE (visible on the PDF of the taxpayer return); it represents the employer's part of the tax (7.65% of net business income)

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

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

- Health insurance costs for someone who is self-employed are *out-of-scope* if claimed on Line 29 of Form 1040. (They cannot be claimed in Schedule C.)
- Such costs *can* be claimed on line 1 of Schedule A. However, in almost all cases, a taxpayer with more than a few thousand dollars of self-employed health insurance would be better off using a paid tax preparer or tax-preparation software.
 - o Schedule A would obviously be of little advantage if the taxpayer had few other amounts to itemize. And even if the taxpayer is already using Schedule A, medical expenses are subject to a reduction of 7.5% or 10% of AGI.

LINE 30 - PENALTY ON EARLY WITHDRAWAL OF SAVINGS

- Penalties for early withdrawal are normally reported on Form 1099-INT; they are entered into TaxSlayer as part of the normal process of entering a Form 1099-T, as described in the Regular Interest Income on Form 1099-INT section on page 26, above
- In usual circumstances, the taxpayer may have paid an early withdrawal penalty that was not reported on a Form 1099-INT. In such cases, enter the information on the **Early Withdrawal Deduction** page [Federal Section > Deductions > Enter Myself > Adjustments > Penalty on Early Withdrawal of Savings or CD]

LINE 31 - ALIMONY PAID

- Refer to [Pub 4012, page E-5](#), for rules
- Alimony does NOT include child or family support, which are NOT deductible
- Go to the **Alimony Paid** page [Federal Section > Deductions > Enter Myself > Adjustments]
 - The SSN of the person receiving the alimony is required because that person must report the payments as *income*
- **CA Note:** The **last name**, not the full name, of the person being paid alimony must be entered in the State Section (Basic Information > Additional Personal Information).

LINE 32 - IRA DEDUCTION

- The taxpayer, and spouse if filing jointly, may each make IRA contributions, subject to age and total compensation income limits.
 - If not filing MFJ, the contribution limit is the smaller of taxable compensation (line 7 plus line 11 plus line 12) or \$5,500 (\$6,500 if age 50 or older at the end of 2016). If filing MFJ, the contribution limit is doubled.
 - Traditional or Roth IRA contributions in excess of the permissible amount are subject to an annual additional tax as long as the excess continues (the tax is reported on Form 5329, Part III or Part IV), which makes the return *out-of-scope*
 - If TaxSlayer determines that an excess contribution has occurred, after “Continue” is clicked, it will show the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution]
 - If the **Form 5329** page is shown, the taxpayer should be advised that the penalty can be avoided, and the return brought back in scope, if excess contributions are withdrawn by the due date of the return. (Details are in [Pub 590A, “Contributions to Individual Retirement Arrangements \(IRAs\)”](#).)
 - Traditional IRA contributions are not allowed after age 70½; contributions to a Roth IRA have no age limit
- To enter the IRA contribution amount (if MFJ, the total amount for the taxpayer and spouse), go to the **IRA Deduction** page [Federal Section > Deductions > Enter Myself > Adjustments]
 - Coverage by a retirement plan is generally indicated in box 13 of the Form W-2 from the employer
 - Even if retirement plan information was entered on a **W-2** page, TaxSlayer does not carry that information to its IRA Deduction page
 - An IRA contribution can make the return eligible for the Line 51 - Retirement Savings Contribution Credit (Line 51 of the 1040, on page 71, below); create a note (page 8) as a reminder to determine if this credit should be give.
- If the taxpayer (or spouse, if a MFJ return) **was** covered by a retirement plan during the tax year, then how much of the allowable contributions will create a deduction (on Line 32) depends on the taxpayer’s MAGI.
 - TaxSlayer calculates this amount.
 - Compare the amount entered on the **IRA Deduction** page to the amount shown on Line 32 of Form 1040 (use the Summary/Print link on the left navigation bar)
 - If the two amounts are **not** the same, then go to **Form 8606 - Nondeductible IRAs** page [Federal Section > Deductions > Enter Myself > Adjustments > Nondeductible IRAs]. The top part of the form – the first four dollar amounts - must be completed –see the [IRS instructions for Form 8606](#). (The remaining questions on this page not required, and are *out-of-scope*.)
- Taxpayers that contributed to a traditional IRA or a Roth IRA prior to completing their tax returns can recharacterize their contribution to the other type of IRA up until they file their return (or April 18, 2017, whichever comes first)
 - Recharacterizing from a traditional IRA to a Roth IRA is valuable if the taxpayer did not get a benefit from the IRA contribution

Adjustments to Income

- o Recharacterizing from a Roth IRA to a traditional IRA could be valuable if the taxpayer would benefit significantly from the additional deduction – for example, if the taxpayer had received APTC, and an additional deduction would bring the taxpayer’s MAGI below 400% of FPL.
- o The taxpayer must arrange a recharacterization through their IRA trustee, and this must be done before the return is completed and filed.

LINE 33 - STUDENT LOAN INTEREST DEDUCTION

- See [Pub 4012, page E-6](#), for rules
- While the taxpayer may have Form 1098-E, Student Loan Interest Statement (lenders are supposed to issue this when the interest amount for the year is \$600 or more), other information from the taxpayer *is* acceptable
 - o Only *interest* paid is deductible; repayment of principal is *not*. If the taxpayer does not have a Form 1098-E, then determine how much of payments during the year were for interest, and how much were for repayment of the loan.
- Enter interest paid on the **Student Loan Interest Deduction** page [Federal Section > Deductions > Enter Myself > Adjustments]
- More information, if needed, can be found in [Chapter 19, “Education-Related Adjustments”, of Pub 17](#)

LINE 34 - TUITION AND FEES DEDUCTION

- The taxpayer must have paid the amount being claimed for tuition and fees. Amounts paid by others, such as grandparents, are NOT deemed paid by the taxpayer
- See [Pub 4012, page J-4](#), for rules. In particular:
 - o Beginning in tax year 2016, the tuition and fees deduction is not allowed unless the taxpayer has a Form 1098-T, Tuition Statement) from the educational institution
- Go to **Form 8863 - Educational Credit** [Federal Section > Deductions > Enter Myself > Adjustments > Student Loan Interest Deduction], select the student, select “Tuition and Fees Deduction”, and enter the amount of **qualified** expenses
 - o Qualified expenses are limited to tuition and required enrollment fees
 - o TaxSlayer will put the information that is entered onto Form 8917, which is visible as part of the PDF for the taxpayer. [Despite the title of the TaxSlayer page used to enter this information, it will *not* show on Form 8863 if that is included as part of the PDF.]
 - o The taxpayer **may benefit more if qualified expenses are used for a credit rather than a deduction** - see Which Education Benefit is Best?, page [69](#), below.
 - o It is not permissible to claim both this deduction and a credit for the *same* student
 - TaxSlayer prevents such a dual claim by removing a name from the drop-down list after that name has been assigned this deduction or an education credit.
- More information on this deduction is available in [Chapter 6, “Tuition and Fees Deduction”, of Pub 670, Tax Benefits for Education](#)
- **CA Note:** This deduction, to reduce AGI, is NOT allowed by CA. TaxSlayer automatically adjusts the CA return (on CA Schedule CA, line 34)
 - o If the education is business-related, a CA deduction may be claimed for the related Schedule C expense, to the extent that there is matching net income.
 - o If there is no Schedule C, or not enough net income to offset the tuition and fees cost, an alternative – if the taxpayer is itemizing on the state return, is to claim the amount as an adjustment to the federal Schedule A, as an unreimbursed employee expense
 - If any part of the amount will exceed the 2% of AGI reduction for line 21 of Schedule A, then make an adjustment – positive – to the CA itemized deduction amount – see Deductions Treated Differently by CA, on page [84](#), below. (The adjustment should be just for the amount that exceeded 2% of AGI.)

LINE 35 - DOMESTIC PRODUCTION ACTIVITIES (OUT-OF-SCOPE)

LINE 35 - OTHER

- This adjustment is used when the taxpayer received jury duty pay, **reported it on Line 21**, and was required by their employer to **turn over the jury duty pay to the employer** (typically in situations where the taxpayer has a paid leave of absence while on jury duty)

- Go to the **Other Adjustments** page [Federal Section > Deductions > Enter Myself > Adjustments], select “Jury Duty Pay”, and enter the amount
- Everything else on this line (any other adjustment on the drop-down list) is *out-of-scope*

TAXABLE INCOME AND TAX CALCULATION

LINE 40 - DEDUCTIONS

Standard Deduction

- The standard deduction is the default
- Persons not eligible to take the standard deduction
 - MFS where the taxpayer’s spouse is itemizing
 - In such a case, go to the **Force Itemized Deduction Instead of Standard Deduction** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Use Standard or Itemized Deduction] and click the button to force the use of the itemized deduction
 - A taxpayer or spouse who is a dual status alien or nonresident alien [such returns are *out-of-scope*]

Standard Deduction Versus Itemized Deduction

- If it is unclear if it is advantageous for the taxpayer to itemize, complete Schedule A
 - **Before itemizing**, for the federal return, look at Form 1040, Page 2, Line 44, Tax, to see if this is zero. If it is zero, then there is no reason to itemize for **federal** purposes, but there still may be **for CA purposes**.
- **CA Note:** The CA standard deduction is significantly less than the federal standard deduction.
 - In determining whether to enter information into Schedule A, **look at CA Form 540, Page 3, line 64, Total tax**. If there is an amount on that line, then use the CA standard deduction (see CA Form 540, Page 2, line 18) as the benchmark for determining whether itemization would be beneficial – itemization has to exceed the amount on line 18.
 - **Note:** If the CA amount at the top of the screen is red (tax owed), then looking at line 64 of Form 540 isn’t needed – line 64 will definitely be negative.
 - **Note:** If there is “N/A” for the CA amount at the top of the return, the State Section may need to be started to remove that “N/A”.
- If **both** Form 1040, Page 2, Line 44, Tax, and CA Form 540, Page 3, line 64, Total tax, are zero, **do not itemize**: that would waste your time and the time of the taxpayer.
- TaxSlayer will select the **better** of the standard deduction or the itemized deduction separately for the federal and CA returns.
 - If you want to see a comparison of federal amounts, go to the **Compare Standard vs Itemized Deduction** page [Federal Section > Deductions > Enter Myself > Compare Deductions]
 - [Pages F-3 and F-4 of Pub 4012](#) are a comprehensive list of questions for a preparer to ask a taxpayer in order to identify potential itemized deductions

Schedule A

- [Pages F-3 and F-4 of Pub 4012](#) are a comprehensive list of questions to ask the taxpayer in order to identify potential itemized deductions
- [Page F-5 of Pub 4012](#) lists a number of items that cannot be deducted on Schedule A; these are items that often come up in conversations with taxpayers.
- TaxSlayer pages to enter Schedule A information are listed on the **Itemized Deductions** menu page [Federal Section > Deductions > Enter Myself > Itemized Deductions]

Schedule A - Medical and Dental Expenses (Line 1)

- The medical and dental expenses section of Schedule A should be done *after all other parts of Schedule A are done*, because it often takes significant time to review and enter the taxpayer’s information for this section, and because completing this section may be unnecessary.
 - After doing all other parts of Schedule A, look at Form 1040, Page 2, Line 44, Tax (via the Summary/Print link on the left navigation bar) to see if this is zero, and similarly at CA Form 540, Page 3, line 64, Total tax (via a PDF of the tax return). If both amounts are zero, **do not** enter medical expenses; entering them will not benefit the taxpayer.
 - If medical expenses will total less than 10% of the federal AGI, the federal Schedule A threshold that pertains to taxpayers under age 65, for 2016, it **still may be worthwhile** to enter these expenses **if** they will

Taxable Income and Tax Calculation

total between 7.5% and 10% of the federal AGI. That's because 7.5% is the threshold for medical expenses on the Schedule A of **the CA return**, for **all** taxpayers.

- Federal AGI is the dollar figure at the bottom of Form 1040, Page 1.
- If not all income has yet been entered, *do so* before determining the 7.5% threshold
- If it is worth entering medical expenses, go to the **Schedule A - Medical Deductions** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Medical and Dental Expenses]
 - o For each category on this page, expenses can be entered as a total *or* in detail
 - It is strongly preferred that the total for each category (doctors/dentists, prescriptions, and so on) be calculated by the taxpayer; if this is done, the total can be entered directly into the TaxSlayer field for that category.
 - If the taxpayer has not totaled the expenses for one or more categories, and if there are relatively few expenses in a category, then click the blue box to the right of the dollar field, for the category of interest. You will then be able to enter payments to individual service providers
 - **Pub 502, “Medical and Dental Expenses”**, is the definitive guidance.
 - Medical and dental insurance:
 - o Medicare premiums entered in the **Social Security SSA-1099** page should not be entered again; although TaxSlayer does not show those, it *will* add them to what is entered on the **Schedule A - Medical Deductions** page
 - o Enter other qualifying payments (“premiums”) for health insurance
 - If a taxpayer was 65 years or older during the tax year, they may be paying for a Medicare Supplement Insurance (Medigap) policy. These payments never appear on a Form SSA-1099.
 - If the taxpayer was 65 years or older during the tax year but did **not** receive Social Security, they may be paying Medicare premiums directly.
 - o On the Form CSA 1099-R of a federal retiree, box 5 is *always* health insurance premiums. However, if the retiree is having dental, vision, or LTC insurance premiums deducted from their annuity, **such premiums will not show on the paper CSA 1099-R page**. The only way to see these other premiums is to see the taxpayer's 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
 - **Note:** 45 is a catchall that includes Long-Term Care; enter the amount on the “Qualified long-term care premiums” line (below), not on the “Medical and dental insurance” line
 - o Amounts paid by taxpayers for a Marketplace policy, as evidenced by a Form 1095-A, should be entered, as medical insurance (TaxSlayer will not do this automatically)
 - **However**, when PTC is provided by the government to reduce the out-of-pocket cost of a Marketplace policy (for most taxpayers, this will be the case), then insurance amount included on the **Schedule A - Medical Deductions** should be **net of** the PTC: that is, what is entered into TaxSlayer should be actual paid per the 1095-A, **plus** any APTC that must be repaid, **minus** any additional PTC allowed.
 - **On the Form 1040, look at line 46, Excess APTC Repayment, and line 69, Net PTC, to see if either is non-zero.** If so, you need to calculate the net amount paid by the taxpayer.
 - Since the Health Insurance section in TaxSlayer is done *after* the Federal Section, *if the taxpayer has a Form 1095-A*:
 - Enter, in TaxSlayer, as a first approximation, the total of the monthly premiums paid directly by taxpayer to the insurance company
 - Create a note (page **8**) saying that that the amount of health insurance premiums paid needs to be adjusted based on the amount in Line 46 or Line 69 of the Form 1040
 - After the Health Insurance section is completed, look at those two lines on the Form 1040, and return to Schedule A to make the adjustment, if any [usually there will be]
 - Update the note to state the amount that was adjusted, if any
 - o Do not include medical premiums paid using pre-tax dollars – these dollars reduced taxable income.
 - o Do not include long-term care insurance premiums; these are entered separately, on the “Qualified long-term care premiums” line at the bottom of the TaxSlayer page
 - Medical miles
 - o The number of medical miles driven is as an approximation for operating costs associated with a personal vehicle. Specific costs (gasoline, car maintenance, and similar) cannot be claimed.
 - The 2016 rate is \$0.19 per mile.

- If the taxpayer has any costs for doctor visits, prescription medicines, or other things requiring travel, this field normally should have a number in it.
 - One obvious exception is when the taxpayer doesn't own a vehicle
 - All other transportation costs (bus, parking, tolls, taxicab fare, airplane tickets, and so on) are entered as "Other medical expenses"
- Qualified long-term care premiums
 - The amount of long-term care (LTC) premiums that are deductible depends on age. For 2016, the total for the year that is deductible amounts is are \$390 if 40 or younger on December 31 of the tax year; \$730 if between 40 and 50; \$1,460 if over 50 but not older than 60; \$3,900 if over 60 but not older than 70; and \$4,870 if 70 or older
 - The premiums are deductible only if they are paid for a "qualified" plan. To be qualified, a plan must To be "qualified," policies issued on or after January 1, 1997, must adhere to certain requirements, as described in **Pub 502**. Plans issued prior to that date must only approved by the insurance commissioner of the state in which they are sold.
- Other medical expenses
 - Medical costs that are part of monthly fees in a senior residence *are* potentially deductible
 - For seniors who live in a retirement community, particularly in assisted living units, but also for those in independent living units, a significant part of their monthly payments may be for the medical facilities and services of the retirement community, *even if not used*
 - Seniors living in board and care facilities who have been declared by a medical professional as incapable of self-care or requiring constant supervision may be able to claim most or all of the facility fees as medical expenses
 - Calculating such amounts can be complex, and is clearly not in-scope for Tax-Aide. Ideally, the retirement community will have given written information to its residents, stating either a percentage or a flat dollar amount of fees that can be considered to be for medical facilities and services.
- On Schedule A of the Form 1040, TaxSlayer will calculate the 10% of AGI (7.5% if age 65 or older, through 2016) that is the nondeductible portion of medical expenses on the federal return
 - **CA Note:** For taxpayers under age 65, the nondeductible portion of medical expenses remains 7.5% of AGI for CA; CA does not conform to the federal rate of 10%.
- **CA Note:** Medical expenses reimbursed by an HSA are not deductible for federal but are deductible for CA
 - These expenses are entered on Form 8889 (see the section Line 25 - Health Savings Account, on page **54**, below)
 - A manual adjustment is required for CA Schedule CA - see Health Savings Accounts in CA, below, page **84**, for further information

Schedule A - State and Local Taxes Paid (Line 5)

- For line 5 of Schedule A, TaxSlayer will use the LARGER of income taxes or general sales tax
- **Go to the Schedule A - Taxes You Paid** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Taxes You Paid]
 - **Note:** The **Taxes You Paid** page is also used to enter real estate taxes paid (see the next section, below), personal property taxes (see two sections below), and, if needed, "other taxes" (three sections below)
- TaxSlayer will include state and local income taxes from W-2s, all 1099 series forms, and estimated tax payments recorded in Payments and Estimates section of the Federal Section when calculating line 5a on Schedule A. *Do not enter these amounts a second time.*
 - **CA Note:** CASDI entered in box 14 of TaxSlayer **W-2** page should also be automatically included by TaxSlayer as a state tax
- In the first box on this TaxSlayer page, add up the following:
 - Any state taxes paid when filing the 2015 state tax return
 - Any state taxes paid when filing an extension in 2016
 - Any state taxes paid as part of a collection or installment payment agreement during 2016
- The general sales tax amount for Line 5b of the Form 1040 is entered into TaxSlayer by clicking the "Begin Sales Tax Worksheet" button; that takes you to the **Sales Taxes Deduction** page
 - Determine if the taxpayer purchased a motor vehicle, aircraft, mobile home, or building materials during the year. If so, note this **extra sales tax** amount; it will be entered in one of two places in the process described in the next two paragraphs.

Taxable Income and Tax Calculation

- For building materials, the sales tax must be separately listed on an invoice, and the invoice paid by the taxpayer, not by a contractor
- If the taxpayer lived in **only one place** during 2016, or two or more places in California with **same** sales tax rates, enter “365” for the days. Then:
 - If you do know the local and state general sales tax rates for the taxpayer, enter them
 - If you don’t know those rates, use the “Click here” link at the bottom left to get those percentages from the IRS sales tax deduction calculator. (**Do not** enter anything where the IRS calculator says “If you have paid sales tax in 2015 on specified items enter the amount”.)
 - Enter the percentages into TaxSlayer
 - Enter the **extra sales tax** amount, as mentioned above, if any, on the “General sales taxes paid” line
 - Click “Continue”
- If the taxpayer lived in **two or more places** in California with **different** sales tax rates, **don’t** enter the sales tax rates on this page because TaxSlayer won’t let you create two copies of the page with California as the state for both copies. Instead:
 - Go to the IRS sales tax deduction calculator, as described above.
 - After you select the calculator, on the first page, click “Continue” (very bottom of the page) on the next page
 - When you select the income range, it should include **non-taxable income**, such as untaxed Social Security benefits, veteran’s benefits, SSI, and worker’s compensation
 - When the calculator asks about “sales tax on specified items”, enter the **extra sales tax** amount, as mentioned above, if any
 - Answer “Yes” to the question “Did you move to a new residence in 2016 (after January 1st)?”
 - On the final page of the IRS calculator, record the “Total General Sales Tax Deduction” *dollar amount* (it would be a good idea to print this page, for the taxpayer’s records)
 - On the **Sales Taxes Deduction** page, click the “Override” button, enter the recorded amount from the IRS calculator, and click “Continue”
- If the taxpayer paid estimated taxes to CA in 2015 [this is rare], ask whether the final payment was made before or after December 31, 2015; if made *after*, enter it on the third line.
- **CA Note**: ; State and local taxes are not allowed for itemization on the CA return; TaxSlayer automatically posts the adjustment to line 39 of the CA Schedule CA.

Schedule A - Real Estate Taxes (Line 6)

- In general:
 - The real estate can be anywhere (U.S. or foreign); it cannot be for rental or business properties [a tax return where the taxpayer owns such property is **out-of-scope**]
 - Most real estate tax information is now available online, publicly available without registering or paying. If you don’t know the website where you can find your county’s information, or if you are looking for real estate taxes paid in other counties of California, or in other states, a good website is publicrecords.onlinesearches.com/
- CA real estate taxes are generally paid in two installments, due in November and February, but not late until a month later. The amount entered on *line 6* should be the amount actually paid in the tax year for the taxes (some taxpayers pay both installments at once, in December or earlier).
- CA has received IRS guidance that deductible real estate taxes do **not** have to be based on the value of the property – this means that the whole amount paid will generally be put onto line 6
 - Two types of charges are **not** deductible:
 - Fees for services provided to the property (for example, trash collection and sewer service)
 - Direct assessments for improvements that tend to increase the value of the property, such as curbs and sidewalks, or city or state-financed energy improvements. (These direct assessments can be added to the basis of the property.)
- If the taxpayer bought and/or sold their home during the tax year, the real estate closing statement(s) **must** be reviewed, because almost certainly the taxpayer either paid real estate taxes at closing or was given credit for real estate taxes already paid.
- **Go to the Schedule A - Taxes You Paid** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Taxes You Paid]; enter the total paid during the tax year

Schedule A - Personal Property Taxes (Line 7)

- **Go to the Schedule A - Taxes You Paid** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Taxes You Paid]
- The CA Vehicle License Fee (VLF) qualifies as a personal property tax
- The total amount paid to DMV includes non-deductible registration fees and may even include unpaid parking tickets – **only** the VLF amount is deductible.
 - The VLF amount can be found on the DMV invoice sent to the taxpayer, if the taxpayer has brought that form
 - The VLF amount may also be listed on the taxpayer’s vehicle registration card, near the bottom of the form, coded as “Lxxxx”
 - The VLF can be looked up **online**, IF the taxpayer has the vehicle’s license plate number and VIN (both are on the vehicle registration card): go to dmv.ca.gov/FeeCalculatorWeb/vlfPage.do
- If the taxpayer purchased a vehicle during the tax year, the bill of sale will include the VLF that was charged
- If the taxpayer has a boat, an RV, or a vehicle trailer with a license plate, there are state registration fees for those, and the VLF amount of the fees should also be included on line 7 of Schedule A.
- If the taxpayer has a manufactured home installed prior to June 30, 1980, they pay an in-lieu property tax through their annual registration fee with California Housing and Community Development. This tax is deductible on line 7 of Schedule A.

Schedule A - Other Taxes (Line 8)

- **Note:** On the taxpayer’s prior year return, vehicle license fees may have been entered on line 8; for 2016, make sure they are entered in the “Personal Property” box on the TaxSlayer page, as discussed in the prior section; that will place them on line 7 of the Schedule A, when printed
- Entries for “Other Taxes” are likely to be rare, if ever used at all. But, if needed, go to the **Schedule A - Taxes You Paid** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Taxes You Paid]
 - Homeowners’ association fees are *not* taxes and are *not* deductible on Schedule A
- Line 8 can include foreign income taxes, but only when the taxpayer is not claiming a foreign tax credit on Line 48, Foreign Tax Credit, on Form 1040, as discussed on page **67**
 - Itemization makes sense only if the taxpayer had significantly more foreign taxes paid than were allowed on Line 48 (the allowed amount is \$600 if MFJ, \$300 otherwise). For example, a 25% marginal-rate single taxpayer would need at least \$1,200 in foreign taxes to make Schedule A itemization worthwhile.
 - If itemization is chosen, *all entries specifically made for foreign taxes on TaxSlayer data entry pages need to be zeroed out; there is no other way to keep the amounts off Line 48 of Form 1040.* (Create a note, per page **8**, about what is being done.)
 - **CA Note:** No CA deduction is permitted for foreign income taxes. If foreign income taxes are deducted on Schedule A, line 8, then, in the State Section, make an adjustment – negative – to the CA itemized deduction amount – see Deductions Treated Differently by CA, on page **84**, below.

Schedule A - Interest and Points Reported on Form 1098 (Line 10)

- [Section 23, “Interest Expense”, of Pub 17](#) has detailed information on the interest deduction
- Interest and points paid are usually reported on Form 1098. If they are **not**, the payments should be reported on lines 11 and 12, respectively, of Schedule A
- What can be included on Line 10:
 - Interest paid on a mortgage(s), and any points paid during the tax year in conjunction with the mortgage(s) up to \$1 million (\$500,000 MFS) is deductible when the loan is used to buy or improve a main home
 - Interest paid on a new loan to refinance an old loan that was used to buy or improve a main home is deductible, but points paid to refinance the mortgage must be spread over the life of the new mortgage (see line 12, immediately below)
 - Interest paid on mortgages to buy or improve a second home may also be deductible
 - Interest on a home equity loan may also be deducted for loan amounts up to \$100,000 (\$50,000 MFS)
 - Late payment charges are deductible as interest in situations where the interest is deductible
 - Motor homes and boats that provide basic living arrangements generally qualify as main or second homes
- Go to the **Mortgage Interest Reported on 1098** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Mortgage Interest and Expenses > Schedule A Interest]
 - For each 1098, report the information separately (click on an “Add” button)

Taxable Income and Tax Calculation

- The second section on this page, “Real Estate Taxes (Non-Business Property)” is provided as a convenience by TaxSlayer, since real estate taxes paid can be reported on a Form 1098 (if the borrower has an escrow account with the lender). **Do not enter real estate taxes here** if you have already entered them on the **Schedule A - Taxes You Paid** page for line 6 (see above); that will cause double-counting.
- What should **not** be entered on the **Mortgage Interest Reported on 1098** page:
 - Home mortgage interest paid to an individual (see the section immediately below)
 - **Mortgage insurance premiums (box 5 of Form 1098)** – see Schedule A - Total Mortgage Insurance Premium, on page **62**, below
 - Reverse mortgage costs (taxpayer who has a reverse mortgage doesn’t **pay** interest until the reverse mortgage **ends**, so during the life of this type of mortgage there is no deduction for interest)
 - When the mortgage ends and is paid off, the interest that is included in the payoff amount is subject to a complicated set of rules to determine what can be deducted on Schedule A – see [Part II of Pub 36, “Home Mortgage Interest Deduction”](#)

Schedule A - Mortgage Interest Not Reported On Form 1098 (Line 11)

- Home mortgage interest paid to **an individual** are reported separately from interest paid on a Form 1098
 - For example, the taxpayer might have purchased a home using a mortgage loan from a parent, and is repaying that loan, with interest.
- If the taxpayer is missing a Form 1098 from a **bank or other organization**, and the missing information can be reconstructed from other sources (remember that monthly mortgage payments almost always consist of both principal and interest; only the *interest* portion of the monthly payments is deductible), that information is reported **as if a Form 1098 existed** (see the section above).
 - If the missing Form 1098 cannot be reconstructed, the taxpayer needs to contact the organization to get the missing form, or do without it when itemizing.
- Go to the **Schedule A - Interest Not Reported on 1098** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Mortgage Interest and Expenses > Schedule A Interest > Mortgage Interest Not Reported on 1098]

Schedule A - Points Not Reported On Form 1098 (Refinance) (Line 12)

- Points paid when a mortgage is refinanced can be amortized over the life of the loan; they cannot simply be deducted on the return for the year when the loan was refinanced.
 - **Note:** If some of the interest on the loan is not deductible, then a proportional amount of the points paid is also not deductible
- To calculate the dollar amount deductible for a tax year, divide the amount paid (for points) by the number of months of the loan (30 years = 360 months) and multiply by the number of months that the loan existed during the tax year.
- If the loan is refinanced and a **different lender is used**, or if the loan is paid off early, the remaining deductible portion of the points from the paid-off or refinanced loan can be deducted on line 12
- Go to the **Points Not Reported on 1098** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Mortgage Interest and Expenses > Schedule A Interest]

Schedule A - Total Mortgage Insurance Premium (Line 13)

- Premiums (“PMI”) paid and/or accrued for qualified mortgage insurance in connection with home acquisition debt on a qualified home are deductible
 - These premiums are reported in box 5 of Form 1098
 - The home must have been purchased, or the first mortgage of the house must have been refinanced, in 2007 or later
 - **Ask the taxpayer when the house was purchased; if before 2007, ask when the first mortgage was issued. If that also is before 2007, do not include this PMI as a Schedule A deduction**
 - Mortgage insurance provided by the Department of Veterans Affairs and the Rural Housing Service is commonly known as a funding fee and guarantee fee, respectively – see [1040 Schedule A instructions](#) for deductibility
- Go to the **Primary Mortgage Insurance (PMI) Deduction** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Mortgage Interest and Expenses > Schedule A Interest > Primary Mortgage Insurance (PMI) Deduction]; enter the total amount for the year

- o **CA Note:** This deduction is not allowed on the CA return. TaxSlayer makes the adjustment automatically to CA Schedule CA, line 41

Schedule A - Investment Interest (Line 14) - out-of-scope

Schedule A - Gifts by Cash or Check (Line 16)

- Donations must be to a qualified charity
 - o If there is any question about eligibility, check the IRS database: irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check
- “Gifts by cash or check” includes checks, money orders, and credit card payments. Cash (that is, currency or coin) contributions are **not** deductible unless documentation is provided by the charity.
 - o If a taxpayer purchases an item and donates it, new, to a charity, that is considered to be a monetary donation, not an “other than cash” donation; it is reported on line 16
 - o Similarly, if a taxpayer pays for care for others in the household in order to be able to leave their house to do volunteer work for a charity, the payments are deductible as charitable donations even though the money didn’t go directly to the charity.
- The deductible contribution is the amount given less the value of any property or service received
- Counselors do not need to see any proof of donations, but the taxpayer should be understand that no deduction is legally allowable unless there is adequate documentation:
 - o For contributions of less than \$250, the taxpayer must have one or both of these:
 - Bank records (canceled check or bank/credit account statement)
 - Written acknowledgment from the charity documenting the amount and date of payment to that charity
 - o For contributions of \$250 or more, taxpayers **must** have **both** bank records AND written acknowledgement, and the written acknowledgment **MUST** state the value of any property or service received by the taxpayer in exchange for the contribution.
- Go to the **Charity Cash Contributions** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Gifts to Charity > Cash Gifts to Charities]
 - o The detailed information entered on this page *is for the recordkeeping of the taxpayer; it is not required by, nor reported to, the IRS*
 - o One option is to enter a total for each organization – Red Cross, Boy Scouts, United Way, etc. – rather than listing individual gifts.
 - If this is done, enter the Date of Donation as 1-1-2016
 - o Another option, if the taxpayer has well-organized records and a total amount for charitable contributions for line 16, is to click the “Override” button and enter that total amount.
- **Note:** the “Limitation on Charitable Contributions Deduction” link, on the **Gifts to Charity** page, which leads to the **Sch. A Charity Limitations** page is *possibly* relevant *only if* charitable contributions total 20% or more of AGI.
 - o Even if the 20% threshold is reached (which will be extremely rare), the page *might* be needed only if significant donations were made to unusual organizations – private foundations, for example. If that becomes a concern, see [Pub 526, Charitable Contributions](#)
 - o Taxpayers who are in fact affected by the contributions limitation must go to a paid preparer, or use tax-preparation software, because their returns are **out-of-scope**
 - o **Note:** If a taxpayer’s 2015 tax return was affected by the contributions limitation, and the taxpayer thus had a contribution carryover into 2016, the 2016 return is **out-of-scope**

Schedule A - Contributions – Other than by Cash or Check (Line 17)

- The taxpayer should retain records of items and amount donated
 - o For any non-cash contribution claimed to be worth **\$250 or more**, the taxpayer must have a *written acknowledgment* from the charity of what was donated. A receipt filled in by the taxpayer *is not acceptable documentation*. (See [Pub 526, Charitable Contributions](#), if more information is needed)
- The amount of a non-cash contribution, for tax purposes, is the fair market value (FMV) of the item at the time of the donation
 - o Clothing and household items must be in good used condition, or better
 - o Donation value estimates can be found on the Salvation Army website: satruck.com/donation-value-guide

Taxable Income and Tax Calculation

- Donations of vehicles, boats, and similar (Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes) are **out-of-scope**
- Unreimbursed travel expenses, such as parking and tolls, can be claimed as non-cash contributions
- Non-cash contributions whose **total** exceeds \$5,000 [to be reported on Section B of Form 8283] are **out-of-scope**
 - On the **Gifts to Charity** page, the last two lines, “Declaration of Appraiser” and “Donee Acknowledgement,” are for donated property with an **individual** value of over \$5,000; thus the TaxSlayer pages for those two lines are **out-of-scope**
- In TaxSlayer, non-cash donations are entered in one of two ways:
 - If the **total** of all such donations is **\$500 or less**, use the **Schedule A Gifts to Charity Information** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Gifts to Charity > Non-Cash Gifts to Charities]
 - Only the **total amount** is entered
 - **Note:** This page is also used to enter **mileage** driven by the taxpayer for unreimbursed volunteer work or other charitable use; TaxSlayer will calculate the dollar amount. [The 2016 rate is 14 cents per mile.]
 - If the **total** of all non-cash contributions **exceeds \$500**, use the **Form 8283, Non-Cash Donated Items** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Gifts to Charity > Non-Cash Donations]; note that the total cannot exceed **\$5,000** or the return is **out-of-scope**
 - Each donation is entered separately
 - For the method used to determine the fair market value, “thrift shop value” usually applies
 - If the fair market value of property on the day it was donated was \$500 or less, the IRS does not require the cost or other basis of property, the date acquired by the donor, or how the property was acquired,

Schedule A - Casualty and Theft Losses – out-of-scope (Line 20)

Schedule A - Unreimbursed Employee Expenses Subject to 2%-of-AGI Reduction (Line 21)

- Job expenses and certain miscellaneous deductions can be included on Schedule A (they are shown in lines 21 through 23 of the form), but are subject to a 2%-of-AGI reduction
 - For example, if a taxpayer has an AGI of \$50,000, the 2% reduction would affect the first \$1,000
 - If the total for taxpayer’s expenses in lines 21 through 23 are *less* than the 2% threshold, **there is no point in entering them into TaxSlayer**
 - See [Pub 529, Miscellaneous Deductions](#), if detailed information is needed for lines 21 through 23, and 28, of Schedule A
- Unreimbursed employee expenses are entered on two different TaxSlayer pages:
 - All expenses other than job-related travel - tools, uniforms, union dues, etc. - are entered on the **Schedule A Unreimbursed Employee Expenses Information** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Unreimbursed Employee Business Expense]
 - Certain education-related expenses *can* be claimed here, if not used elsewhere in the tax return. See the “Business Deduction for Work-Related Education” section of [Pub 970, “Tax Benefits for Education”](#). (Expenses must be for education that maintains or improves the taxpayer’s job skills or that the taxpayer’s employer, or a law, requires in order for the taxpayer to keep their salary, status, or job. **But** the education cannot be part of a program that will qualify the taxpayer for a new trade or business.)
 - **Note:** The first \$250 of an educator’s expenses, if allowable (must be K-12 education), is more beneficial to the taxpayer if taken as an adjustment to gross income (see Line 23 - Educator Expenses, page 53, above) rather than going on Schedule A
 - Job-related travel expenses are entered on the **Form 2106 Information** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Job-Related Travel Expenses]
 - If expenses were partially reimbursed by employer, then Form 2106 cannot be used and the return is **out-of-scope**
 - Vehicle expenses are in-scope *only* if the standard mileage rate is used
 - If a MFJ return, select the person for whom the form applies
 - [Pub 4012, pages F-9 through F-13](#), has details about business-related expenses for travel and entertainment, including recordkeeping requirements
 - Note that meals and entertainment expenses are entered *in full*; TaxSlayer will calculate the allowed amount, using the stated percent, and put that amount on Schedule A

Schedule A – Miscellaneous Deductions (Lines 22, 23, and 28)

- In TaxSlayer, some deductible miscellaneous expenses are reported on the **Schedule A - Miscellaneous Deductions** page [Federal Section > Deductions > Enter Myself > Itemized Deductions > Miscellaneous Deductions]. These fall into two categories – those subject to a 2%-of-AGI reduction, and those that are not
- The following in-scope expenses are **not** subject to the 2% reduction [these show up on line 28 of Schedule A]:
 - Gambling losses, to the extent of gambling winnings – see Gambling Winnings - Form W-2G above, page [49](#)
 - Impairment-related work expenses (for a disabled person)
 - Claim repayments of \$3,000 or more
 - This is for situations where the taxpayer had to repay *more than* \$3,000 that they had included in income in an earlier year
 - If \$3,000 or less, the repayment is listed on line 23 and is subject to the 2%-of-AGI haircut
 - Unrecovered pension investments (includes annuities)
 - If a taxpayer died during the tax year, and had a pension without survivor benefits, any unrecovered pension contributions may be reported on line 28 of Schedule A on the final tax return for that taxpayer. See [Pub 575](#) for details.
- The following in-scope expenses **are** subject to the 2% reduction, which means that they may not be worth entering into TaxSlayer [these show up on lines 22 and 23 of Schedule A]:
 - Tax return preparation fees
 - Safe deposit box rental
 - Investment expenses (*tip*: review any brokerage statements that the taxpayer has)
 - Claim repayments of \$3,000 or less (these are repayments by the taxpayer of amounts reported as income in an earlier year) – click the “Add Additional” button
- The following miscellaneous expenses are **out-of-scope**
 - Amortizable premiums on taxable bonds
 - Federal estate tax
 - Casualty and theft loss (reported on the **Less Common Deductions** page)

LINE 44 - TAX

- If line 43, Taxable Income, is positive, but line 44 is blank or zero, *this is not an error*. For taxpayers in the 10 and 15 percent tax brackets, capital gains and qualified dividends are taxed at a rate of **zero**. If the total of capital gains and qualified dividends is greater than the taxable income shown on line 43, then the Tax amount is in fact *zero*

LINE 45 - ALTERNATIVE MINIMUM TAX (out-of scope)

- This is calculated by TaxSlayer; any value on this line makes the return **out-of-scope**

LINE 46 - EXCESS ADVANCE PREMIUM TAX CREDIT REPAYMENT

- The amount on line 46 of the Form 1040 is determined by TaxSlayer based on answers in the Health Insurance section. However, the Health Insurance section of TaxSlayer is used primarily to determine whether the taxpayer owes an individual responsibility payment because of lack of health insurance coverage sometime during the year. Accordingly, the initial page in the Health Insurance section, and most pages in that section, are covered in the section Line 61 - Health Care: Individual Responsibility, on page [75](#), below.
- The remaining questions in the Health Insurance section are related to taxpayers who purchased health coverage on an exchange (see Intake/Interview sheet, top of page 3), and who probably received an advance premium tax credit (APTC).
 - APTCs (also known as “subsidies”) are paid by the federal government to the health insurer, not to the taxpayer. When the taxpayer files their annual tax return, part of that process is to determine if the subsidies for the year were too high, too low, or just right.
 - The amount of the APTC paid to the health insurer was based on *what the taxpayer told the ACA exchange* about the taxpayer’s *expected* income during the tax year.
 - Note: Taxpayers receiving APTC should always notify the exchange when they have a significant change to their income or family during the year. Otherwise, they may owe a substantial amount (for excess subsidies) when they file their tax return, or may pay unnecessarily high premiums during the year, recovering the extra amounts only after filing taxes.

- Detailed information on the premium tax credit can be found in [Pages ACA-14 through 18 of Pub 4012](#)

Form 1095-A Information

- If the answer on the first page of the Health Insurance section is “Yes”, then taxpayer had *some* health insurance during the year. The second page, also titled Health Insurance Questionnaire, asks “Did you purchase health insurance via HealthCare.gov or a State Marketplace?” If the answer is “No”, then line 46 on the Form 1040, and the related line, 69, will be **zero** (and you’re done with those two lines on the Form 1040); if the answer is “Yes”, then continue with these instructions.
 - **CA Note:** The term “State Marketplace” or just “marketplace”, “or “exchange”, should be taken to refer to Covered California (at [coveredca.com](#))
 - If the taxpayer has a Form 1095-A from a state other than CA, then the state return will be **out-of-scope** (because the taxpayer was not a full-time resident of CA during the tax-year) but the federal return is **not**, assuming that the policy for your site allows federal-only returns to be prepared.
- TaxSlayer, on the **Advanced Premium Tax Credit (1095-A)** page, asks if the taxpayer received a Form 1095-A, or any subsidies. *If the taxpayer got subsidies for health insurance purchased through Covered California, they should have gotten a Form 1095-A.*
 - If the answer is “No”, then line 46 on the Form 1040, and the related line, 69, will be **zero** (and you’re done with those two lines on the Form 1040)
 - If the answer is “Yes”, but **taxpayer does not have a Form 1095-A, or a Form 1095-A is incomplete, or incorrect, the return cannot be completed.** The taxpayer must contact the marketplace (see above) to get a 1095-A, or a corrected one, or the information which should be the 1095-A. If the client can get this information over the phone, the return can be completed.
 - If the answer is “Yes”, and the taxpayer has one or more Form 1095-A’s which are correct, and none are missing [almost always a taxpayer will have just one Form 1095-A], then proceed.
 - TaxSlayer will use information entered in this and the following page (about dependent income) to prepare [Form 8962, Premium Tax Credit \(PTC\)](#). However, Form 8962 is not visible in TaxSlayer except when a PDF of the taxpayer’s return is created. ([Page ACA-16 of Pub 4012](#) shows what should appear on the Form 8962.)
 - The **Advanced Premium Tax Credit (1095-A)** page will expand to allow entering information from the Form 1095-A into TaxSlayer, after the first question is answered “Yes”.
 - **Note:** [Page ACA-9 of Pub 4012](#) discusses Form 1095-A in detail; [page ACA-17](#) discusses how to handle **multiple 1095-A’s**, particularly for column B entries.
 - If the taxpayer stopped paying premiums, and the Form 1095-A shows, for any month, a zero in column A but dollar figures in columns B and C, see the bottom of page ACA-17 regarding what options the taxpayer has.

Dependents’ Modified AGI (if filing requirement)

- This TaxSlayer page is relevant **only** if the taxpayer has dependents on the return who were **required** to file their own tax returns due to their gross income.
 - Do **not** enter information for dependents who are filing a tax return only to claim a refund of tax withheld or estimated tax paid, or filing only because they owe self-employment tax (Schedule C)
 - [Page ACA-14 of Pub 4012](#) has information on when dependents are **required** to file a tax return
 - **Note:** Oddly, TaxSlayer shows this page even when the tax return *has no dependents listed*.
- For taxpayers without dependents, or where no dependent was required to file a tax return, it’s not necessary to enter any information on the four lines of this page; just click “Continue”

Repayments of APTC

- After completing the Health Insurance section, **check Line 46 of the Form 1040** (via the Summary/Print option; go to page 2 of the 1040) to see whether TaxSlayer has calculated that the taxpayer must repay some or all of the APTC received during the tax year.
 - **Note:** The calculation of the amount to be repaid is based on the taxpayer’s **MAGI** (AGI + any excluded foreign earned income + any exempt interest income + any nontaxable SS income + any included dependent income). So it’s important to have entered all income into TaxSlayer before analyzing the repayment situation.
- If the taxpayer is repaying **all** APTC received (the amount in Column C of the Form 1095-A), and the taxpayer’s MAGI is just above 400% of the federal poverty line [see [page ACA-12 of Pub 4012](#)], consider ways to reduce the taxpayer’s MAGI to below 400%:

- o Can the taxpayer make a contribution to a traditional IRA by April 18, 2017?
- o Can the taxpayer claim a tuition and fees adjustment (Line 34), which reduces AGI, rather than an educational credit, which does not?
- o If filing MFJ, would filing MFS help? It might if one spouse has more income than the other that is not community income. If this is a possibility, the taxpayer might benefit from going to a paid preparer.
- If the taxpayer is repaying all or a significant amount of APTC, discuss with the taxpayer whether they have marketplace coverage in 2017, and, if so, whether the marketplace has a good estimate for the taxpayer's income in 2017. A good estimate is important for avoiding a large repayment when taxes are filed in 2018.
- APTC repayment on Line 46 of Form 1040, Page 2 **is an allowable medical expense** on Schedule A, as are insurance premiums listed on Form 1095-A. The amount on Line 46 should be treated **as if the taxpayer had paid the premiums during the tax year of the return.** (This is an exception to the normal "calendar year" determination.)

NON-REFUNDABLE CREDITS

- Lines 48 through 54 on the Form 1040, page 2, are for **non-refundable credits**. Such credits can only be used to offset taxes due (lines 44 through 46 on the 1040). In contrast, refundable credits (lines 66 through 69, 72, and 73) benefit the taxpayer even if no tax is due. The Earned Income Credit, for example, often results in a tax refund of thousands of dollars.
- Non-refundable credits are found on the **Credits** page of TaxSlayer [Deductions > Enter Myself > Credits Menu], as shown on [Pub 4012, page G-1](#)
- **Note:** Even if the Form 1040, Page 2, Line 47 dollar amount (the total of all taxes on the return) is zero, some (or all) of the Child Tax Credit may become a refundable Additional Child Tax Credit, on line 67.
- If nonrefundable credits are in excess of taxes due, that may affect other calculations, such as the amount of capital loss carryover that created a tax benefit
 - o Enter into TaxSlayer all information for non-refundable credits for which the taxpayer is eligible, regardless of their anticipated impact on the total tax owed.

LINE 48 - FOREIGN TAX CREDIT

- Foreign taxes that are in-scope are those that appear on Form 1099-INT, Form 1099-DIV, Form K-1, or a substitute for any of these. Foreign taxes shown on **any other document**, such as a royalty statement, are **out-of-scope**, because they require a **full** Form 1116 to claim a credit for such taxes; the full Form 1116 is **out-of-scope**
- If the total foreign tax that the taxpayer wants to be credited EXCEEDS \$300 (\$600 for a joint return), the return is **out-of-scope** because the simplified method cannot be used.
 - o If more than \$300 (\$600 for a joint return) is entered, for 1099-INT, 1099-DIV, and K-1 forms, TaxSlayer *ignores* the excess.
- Foreign taxes paid are entered into TaxSlayer as part of the process of entering Form 1099-INT (page [25](#)), Form 1099-DIV (page [28](#)), and K-1 forms (page [28](#))
- The taxpayer may choose an itemized deduction for the foreign taxes, as discussed in the section for Schedule A, line 8, rather than a foreign tax credit. The credit is normally much better for the taxpayer, but if total foreign tax paid *significantly* exceeds \$300 (\$600 for a joint return), there may be an advantage to itemizing (see page [61](#), below, for further discussion, and the process for doing so).
 - o Split reporting of foreign taxes (some on Line 48, some on Schedule A) is *not allowed*
- **Note:** If the total of foreign taxes paid is greater than the amount of tax liability (Form 1040, page 2, line 47), no carryback (to a prior tax year) or carryover (to a future tax year) of the unused foreign tax credits is allowed if Tax-Aide prepares the return, because Tax-Aide uses only the simplified method
 - o If the taxpayer wants to preserve the carryback/over opportunity by filing a full Form 1116, which makes the return **out-of-scope**, you must suggest that they go to a paid preparer or use tax-preparation software.
- [Pub 514, Foreign Tax Credit for Individuals](#), is the definitive guidance on this topic.

LINE 49 - CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

- Refer to [Pub 4012, starting at page G-3](#)
 - o **Note:** If the care provider worked in the client's home and the total amount paid in 2016 was over \$2,000, [Schedule H, Household Employment Taxes](#), may be required, in which case the return is **out-of-scope**

Non-Refundable Credits

- This credit is available if the taxpayer paid someone else to care for a qualifying person:
 - (1) A dependent child who was under age 13, OR
 - (2) A dependent or spouse, regardless of age, who could not care for him/herselfAND (3) this was done in order for the taxpayer to work or look for work (the qualifying person, the one needing care, must have lived with the taxpayer for more than half the year)
 - o **Note:** In the year a child turns 13, these expenses are allowable only for the part of the year before their 13th birthday
 - o **Note:** For MFJ returns, *both* the taxpayer and spouse must have earned income, unless disabled or a full-time student
- Go to the **F2441 - Child Care Credit - Page 1** page [Federal Section > Deductions > Enter Myself > Credits Menu > Child Care Credit > Begin]
 - o Click “+Add” to enter a provider
 - o Enter all provider information
 - **Note:** While this credit is for *care*, not for *education*, education *below* kindergarten is an acceptable expense, as is after-school care *if* the primary purpose is *not* educational. As acceptable are day camp, but not overnight camp, adult day care, and in-home care
 - **Note:** The return must be paper-filed **if** an EIN/SSN of a provider is unavailable – if that is the case, create a note (page 8) saying that
 - Enter the total amount paid to the provider, including any amounts paid by the employer and reported in box 10 on the Form W-2. (If any dependent care benefits were paid by the employer, make sure that this amount has been entered correctly on the W-2 page; amounts entered in box 10 will appear automatically on line 12 of Form 2441.)
 - Additional providers can be added
 - When done with the section, click “Continue”
 - o Click “Step 2 – Dependents”
 - Click “Edit” next to the dependent’s name to enter the total Qualified Expenses paid to the provider for each dependent. This *source* of the funds to pay these expenses is not relevant – it can be a combination of employer benefits and the amount paid out-of-pocket by the taxpayer.
 - Make sure that the total of the amounts paid to providers is exactly the same as the total of expenses allocated to dependents. (The “Difference” amount at the top of page 1 should be zero; if not, TaxSlayer will show a warning.)
 - Click “Continue” after entering qualifying expenses for each dependent
 - o Click “Step 3 – Qualifying Persons” **if** there are qualified expenses for non-dependents.
 - *Do not add qualifying persons here.* All dependents and qualifying person should be entered in the Basic Information section, on the Dependents and Qualifying Children page – see page 17, above
 - o Click “Continue to Page 2”
- On **Child Care Credit - Page 2:**
 - o **Note:** For most clients no information will need to be entered on Page 2.
 - o If the taxpayer and/or spouse were a full-time student or disabled, then they are considered to have worked and earned income.
 - This information can be found on page 1 of the Intake/Interview sheet, in box 7 (and box 10, if a MFJ return)
 - “Full-time student” means being enrolled for at least five months (any part of a month counts as a full month) during the tax year, at a “brick and mortar” school, which doesn’t have to be a college or university.
 - o Follow the directions on the form to calculate and enter the earned income for purposes of this credit. Income entered on Page 2 increases the amount on line 4 of the Form 2441.
 - o Dependent care benefits received but not reported on a Form W-2, or forfeited benefits, are also entered on Page 2.
 - o Even if no information was entered on page **Child Care Credit - Page 2**, click “Continue” to complete the Child Care Credit process,
- “**CA Note:** CA has a **nonrefundable** credit for Child and Dependent Care Expenses, which requires CA Form 3506. TaxSlayer automatically generates this after Form 2441 information is entered in the Federal Section.
 - o If the provider’s business address, entered on the **F2441 - Child Care Credit - Page 1** page, is the same as the address where the child care was provided, then no action is needed for the CA Form 3506.

- o Otherwise, go to the **Child Care Credit** page in the State Section [Credits > Child Care Credit]
 - **Note:** Entering information about other funds received is **not** required; that information does not affect the calculations in CA Form 3506.
 - **Note:** As of the date of printing of this manual, it is unclear how TaxSlayer will be modified to collect information on the physical address where child care was provided if that address is different than the business address of the care provider.
 - When done with this form, click “Continue”

LINE 50 - EDUCATION CREDITS

- 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.
 - o Expenses used for calculating either credit must be paid during the tax year
 - o Expenses used for calculating either credit or for the adjustment must be reduced by any scholarship amount designated for those expenses
 - o If the taxpayer is filing MFS, none of these benefits are allowable
- The taxpayer can take **ONLY ONE** credit or adjustment **per student**: American Opportunity credit, Lifetime Learning credit, or tuition and fees deduction

Which Education Benefit is Best?

- If the student qualifies for the American Opportunity Credit (AOC), in almost all cases it will be the most beneficial credit because
 - o It is a partially refundable credit
 - o Eligible expenses include course materials as well as tuition and fees
 - o The AGI limit is higher than the Lifetime Learning Credit
- If the student does not qualify for the AOC because they are not a half-time student or are not in their first four years of college, the Lifetime Learning Credit or the Tuition and Fees adjustment should be claimed, unless a Schedule C business-related expense is available and better
 - o **Note:** Education expenses in excess of the amounts allowable for either credit may be deductible elsewhere
- A systematic process should be used determine which education credit or deduction is best:
 - o First complete ALL other aspects of the return.
 - o If the taxpayer had health insurance through the Marketplace, make sure that ACA information is entered
 - o Use one of the listed tools below; if that does not provide a clear answer, then use a manual process.
- There are tools that can be used to determine the amounts eligible for the two education credits and for the adjustment, to help the taxpayer decide which is best:
 - o Pages [J-2 and J-3 of Pub 4012](#) provide a comprehensive overview of the taxpayer’s choices; [page J-5 of Pub 4012](#) compares the American Opportunity Credit to the Lifetime Learning Credit.
 - o The Education Calculator, an optimizer, is at cotaxaide.org/tools
 - o If the taxpayer’s situation includes credits not covered by the optimizer, you can use the [2015 Education Cookbook](#), available at the OneSupport Help Center (at Tax Training, then go to Tools)
- [Pub 970, Tax Benefits for Education](#), is a comprehensive list of options.

American Opportunity Credit (AOC)

- For 2009 through 2017, this credit is applicable if all of the following apply:
 - o For the first four years of postsecondary education (generally, the freshman through senior years of college), as determined by the eligible educational institution
 - o When neither the American Opportunity Credit nor its predecessor, the Hope Scholarship Credit, has been claimed (by the taxpayer or anyone else) for this student for any four prior tax years
 - o The student is enrolled at least half time in a degree program
 - o The student has not been convicted of a felony drug offense
- With regard to those four years:
 - o Foreign college-level study is also counted toward the first four years, if the eligible education institution counts that study toward the first four years
 - o These qualifying first four years do not have to immediately follow secondary school and do not have to be continuous; there can be breaks between
- Education after four years of college (as determined by the educational institution) is ineligible for the credit

Non-Refundable Credits

- When the student is the taxpayer and is less than 24 year of age, refer to [Pub 4012, page J-10](#), which is a set of seven questions to be answered to determine if the refundable part of AOC can be claimed
 - If you reach question 7, and the answer to that question is “... no, you do not qualify...”, then education expenses should be used, if possible, for another education benefit, not the AOC
- Allowable expenses are tuition, fees, books, supplies and computers required as a condition of enrollment
 - Amounts paid by others, such as grandparents, are deemed paid by the taxpayer
- Up to 40% (maximum \$1,000) of this credit may be refundable
 - The credit will be split between Line 50 and Line 68 on the Form 1040.

Lifetime Learning Credit

- This credit is for all other postsecondary education not covered under the AOC
- Allowable expenses are normally only tuition and fees. Amounts **required** to be paid to the institution for course-related books, supplies, and equipment are also allowable, but usually such items can be purchased from places other than the institution
 - Amounts paid by others, such as grandparents, are deemed paid by the taxpayer
- The limit is \$10,000 of costs per return, regardless of the number of dependents

Entering Education Information into TaxSlayer

- To begin the process of claiming a benefit, go to the **Form 8863 - Educational Credit** page
 - This page can be reached from two places other than the search box and line 50 of the Form 1040 on Page 2 of the **Calculation Summary**:
 - Federal Section > Deductions > Enter Myself > Adjustments > Tuition and Fees Deduction
 - Federal Section > Deductions > Enter Myself > Credits Menu > Education Credits (Form 1098-T)
- Select the name of an eligible student
 - A taxpayer who could be claimed as a dependent but was not is still eligible for a credit
- Select which of three benefits is being claimed, and the dollar amount of qualified expenses for that benefit
 - Qualified expenses for the two credits are discussed above; for the tuition and fees deduction, not surprisingly, only those two expenses can be used. Also, expenses must be paid by the taxpayer (or spouse), not by a dependent or third party, and fees can include amounts for books, supplies, and equipment used in a course of study if required to be paid to the institution as a condition of enrollment or attendance.
- If either of the two credits is selected, TaxSlayer displays more a box asking for more information about the educational institution
 - Schools that qualify are listed at fafsa.ed.gov/FAFSA/app/schoolSearch?locale=en_EN
 - The EIN of a school, if a student does not have a Form 1098-T, can be found at edulisting.com
 - The student should receive a Form 1098-T from the educational institution, which shows tuition and fees paid or billed, and whether the student was at least a half-time student, as well as scholarships and grants
 - If the educational institution reports amounts billed (box 2), then a printout of the student’s account at the institution, or similar information from the taxpayer showing exactly when payments were made, can be very useful, because billing may be done in one year and payment in the next. (What was *paid* goes onto a tax return, not what was *billed*.)
 - If box 4, “Adjustments made for a prior year”, has an amount in it, the return is **out-of-scope** if the taxpayer wants to use any of the expenses on the Form 1098-T
 - See Scholarships, Fellowships & Grants – Form 1098-T above, page [52](#), regarding whether scholarships, fellowships, and grants are taxable
- The question about whether the Hope credit or AOC has “already been claimed on 4 prior tax returns?” should be answered *if* the AOC has been selected at the top of the page; if the LLC has been selected, you must answer “Yes” in order to complete the page.
 - If the question is answered “No”, then answer the next three questions.
 - Also, create a note (per page [8](#)) that records the individuals and years for which the American Opportunity credit has been claimed
- Click “Continue” to have TaxSlayer calculate how the information you entered affects the tax return
 - For either of the two credits, TaxSlayer creates Form 8863. For the tuition and fees adjustment, TaxSlayer creates Form 8917. These forms will be visible as part of the PDF for the tax return; they may be useful if trying to understand TaxSlayer calculations.
- **CA Note:** CA has no education credit, so education expenses allocated on the federal return to one of these two credits can be allocated otherwise on the CA return

- o If the taxpayer has a Schedule C on the return, **and** the educational expenses are related to that business, **and** the business has a net profit, then follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, on page **81**, below, to *reduce* income on the CA return [the reduction is the *lesser* of the educational expenses or the net profit]
- o If the taxpayer is itemizing, **and** cannot use some or all the expenses on a Schedule C, **and** the educational expenses are job-related, then – subject to the 2% of AGI limitation as discussed in the section Schedule A – Miscellaneous Deductions (Lines 22, 23, and 28) on page 65, above – they can be added to the CA return as an additional itemized deduction
 - Follow the procedure in the section Deductions Treated Differently by CA, on page **84**, above

LINE 51 - RETIREMENT SAVINGS CONTRIBUTION CREDIT

- This credit is available to taxpayers who made **elective** contributions to IRAs, Roth IRAs and other qualified plans. Such contributions are of two general types:
 - o Contributions on a Form W-2: codes **D, E, F, G, H, S, AA, and/or BB in Box 12** (this information will have been entered into TaxSlayer on a **W-2** page)
 - o IRA contributions (for both traditional **and** Roth IRAs) made directly by the taxpayer, rather than through an employer (see page 2 of the Intake/Interview sheet, and specifically Part IV, question 2)
 - Traditional IRA contributions will have been entered in the **IRA Deduction** page, as described in the Line 32 - IRA Deduction section, on page **55**, above
 - Roth IRA contributions are entered on the **Retirement Savings Contributions Credits** page, as described below
- Review this credit *after the taxpayer's AGI has been determined*
- If the taxpayer made any retirement contributions, as documented on a Form W-2 or by taxpayer records, use the chart on [page G-6 of Pub 4012](#) to determine if the taxpayer is eligible for this credit.
 - o If this chart shows the taxpayer is **not** eligible, check line 51 of the 1040 (via Summary/Print) to make sure that it is zero. If **not zero**, go to the **Retirement Savings Contributions Credits** page [Federal Section > Deductions > Credits Menu > Retirement Savings Credit (Form 8880) > Retirement Savings Contributions Credits], and enter an amount in the first box, which will zero out line 51 on the Form 1040.
 - o If this chart shows that the taxpayer is eligible, enter information into the **Retirement Savings Contributions Credits** page as described on [page G-7 of Pub 4012](#)

LINE 52 - CHILD TAX CREDIT

- This credit is for taxpayers who have a qualifying child under the age of 17 as of the end of the tax year
 - o It is in addition to the child and dependent care expenses and earned income credits
 - o If the custodial parent releases the dependency exemption to the non-custodial parent, then eligibility for CTC is also released to the non-custodial parent.
- If the taxpayer is eligible for CTC, TaxSlayer **automatically** creates and completes Schedule 8812
 - o Schedule 8812 can be reviewed by creating a PDF of the return, using any of the print options in TaxSlayer
- This credit is up to \$1,000 per child. It is both a non-refundable *and* a refundable credit
 - o It is a refundable credit to the extent that it can be used to reduce the amount on line 56 of the Form 1040
 - o If/when line 56 is reduced to zero, but this credit has not been fully used for that, then the remaining amount goes to Line 67 - Additional Child Tax Credit (see page **79**, below), subject to a maximum based on income, as discussed on that page
- If this credit (or the companion credit on Line 67, the ACTC, is received, and the qualifying child is **15 or 16 years old** as of the end of the tax year, remind the taxpayer that the credit ends when the child becomes 17.
- If needed, more information is on [pages G-8 and G-9 of Pub 4012](#), and in [Pub 972, Child Tax Credit](#)

LINE 53 - RESIDENTIAL ENERGY CREDITS,

- [Page G-10 of Pub 4012](#) has information on what qualifies for the residential energy credit, and limitations; also refer to the [Instructions for Form 5695](#) as necessary
 - o The credit given is 10% of the cost of the qualifying improvements, with maximum amounts on some items, and an overall maximum of \$500 for all years since 2005.
- Go to **Form 5695 - Residential Energy Credit** page [Federal Section > Deductions > Enter Myself > Credits Menu > Residential Energy Credit (Form 5695)]

Non-Refundable Credits

- Check the box indicating “The energy efficiency improvements or residential energy property costs were made to the taxpayer’s **main home** located in the United States”, if applicable
 - Second homes, rental homes and other property do not qualify.
- Do not check the box indicating the improvements were related to the construction of the home. These improvements are **out-of-scope**
- Click “Continue”
- On the **Form 5695** page, on the “Nonbusiness Energy Property” line, click “Begin”
 - The “Energy Efficient Improvement” line is **out-of-scope**.
- On the **Form 5695 – Nonbusiness Energy Property** page, enter the address of the main home.
 - **Note:** Clicking the red underlined “Use my main address” fills in the address from the Basic Information section.
- In the “Qualifying Improvements” section of this page, enter the dollar amount(s) spent
 - For certain items, such as insulation, only the costs of the **material** can be claimed – not the costs of installing the material, or permits, or any other costs.
 - The taxpayer must have documentation, such as a billing from the contractor, for such items, in order to separate material costs from all other costs.
 - If the improvement is for exterior windows, and windows have been claimed on previous tax returns, enter the amount of the 1040 Line 53 credits previously *received specifically for windows*.
 - There is a \$200 lifetime **credit** limit for windows.
- In the “Prior Year Credits” section, enter any residential credits received on tax returns since 2005, using the amounts that were on the specified lines of Form 5695 for those years.
 - To complete this section, the taxpayer must either bring the tax returns for these years or must be sure that the energy credit amounts were **zero** for these years.
 - It’s not necessary to enter zeros
- Click “Continue” to finish the page

LINE 54 - OTHER CREDITS

Schedule R: 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**, had taxable disability income (typically, code 3 on a 1099-R), **AND** was under the minimum retirement age as of December 31 of the tax year.
- This is a **non-refundable** credit; if the taxpayer owes no tax (see line 44 of the 1040), there is no need to go to the TaxSlayer pages.
- There are income and other limitations for this credit.
 - If AGI is greater than \$25,000, or Social Security benefits are more than \$7,500, then the taxpayer is **not eligible** for this credit; do not go to the TaxSlayer pages or research further.
 - If the taxpayer (disabled, or at least 65 years old) is **under** those dollar limits, use the decision tree on [Page G-11 of Pub 4012](#) to determine whether a taxpayer qualifies
 - [Chapter 33, “Credit for the Elderly or the Disabled”, of Pub 17](#), has even more information, if there are still questions.
 - If the taxpayer **does not** qualify, do not enter any information into TaxSlayer
- If the taxpayer *does* qualify, based on the decision tree in Pub 4012, go to the **Schedule R Retired/Disability Question** page (in the search box, this will show as “Go to Form Elderly or the Disabled Credit now”); complete that page and one or two other pages
 - Via the menus, this is: Deductions > Enter Myself > Credits Menu > Credit for the Elderly or Disabled Schedule R > Schedule R Retired/Disability Question
 - On the **Schedule R Retired/Disability Question** page:
 - If the taxpayer or spouse is under 65 but retired on **permanent and total disability**, then the related box on the Intake/Interview sheet should have been checked.
 - The second page, **Statement of Disability**, should not be shown by TaxSlayer if “You were 65 or older” is selected on the first page. If this page does appear (for a disabled taxpayer), follow the page’s instructions
 - The third page, **Income**, is critical. The two dollar fields *are used differently in TaxSlayer calculations*
 - “Total disability income” should include *only* disability income entered *elsewhere* in TaxSlayer, such as a code 3 (disability) distribution on a 1099-R.

- “Other pension, annuity, or disability benefit that is excluded from income under any other provision of law” should include *only* income that is *not* entered elsewhere in TaxSlayer; one example would be Supplemental Security Income (SSI) payments.
- Click “Continue” to finish the third page and the entering of information for this credit

All other Line 54 credits are out-of-scope:

- Form 3800, General Business Credits
- Form 8396, Mortgage Interest Credit
- Form 8834, Plug-In Electric And Electric Vehicle Credit
- Form 8859, Carryforward of the District of Columbia First-Time Homebuyer Credit
- Form 8910, Alternative Vehicle Credits
- Form 8936, Plug-In Electric Motor Vehicle Credit

OTHER TAXES

LINE 57 - SELF-EMPLOYMENT TAX

- TaxSlayer determines the amount on Line 57, Self-employment tax, based on information entered on Schedule C; the amount is 15.3 percent of net income on Schedule C (but is **zero** if net income is less than \$400)
- If Schedule C income is from a notary business, self-employment tax does not apply, and an adjustment must be made – see the section Notary Fees, on page 34, above
- Unique rules apply to the clergy; such returns are *out-of-scope*
- **Note:** Self-employment tax does not apply to statutory employees - FICA and Medicare taxes were withheld on their Form W-2s

LINE 58 - UNREPORTED SOCIAL SECURITY AND MEDICARE TAX

- An amount on this line should come from Form 4137 tip income not reported on Form W-2s; see the section W-2 Form - Tip Income (part of Form 1040, Line 7), above, page 25
- The use of Form 8919, Uncollected Social Security and Medicare Tax on Wages (for taxpayers who were employees but were treated as independent contractors by their employer), would make the return *out-of-scope*

LINE 59 - ADDITIONAL TAX ON IRAS, OTHER QUALIFIED PLANS

- Form 5329 is used for the assessment of various additional taxes. The most common is for an early withdrawal from IRAs and other tax-favored accounts.
- If additional tax is assessed, it will show on both Form 5329 [visible on the PDF for the return] and on Line 59 of the Form 1040
 - If no exception applies to the penalties that are automatically calculated by TaxSlayer, then Form 5329 does not need to be included in the return

5329 Part I – Additional Tax on Early Distributions

- “Early withdrawal” means before the age of 59½
- TaxSlayer assesses the federal 10% penalty if there is a code **1** in box 7 of a Form 1099-R (or code **J**, but that is *out-of-scope*). The surtax is 25% in the case of a SIMPLE early withdrawal – code **S** in box 7 of the Form 1099-R
 - **CA Note:** CA also assesses a 2.5% penalty on Form 3805P.
- Any penalty can be eliminated if the taxpayer qualifies for an exception, which is entered on Part I of the Form 5329 page. The process for doing this is discussed in the section 1099-R Form – Exceptions to Early Withdrawal Penalties, on page 40, above

5329 Parts II through VIII - Out-of-scope

- *Note: Part IX of IRS Form 5329 is “Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs)”, and is discussed below. In TaxSlayer, this part of Form 5329 may be mislabeled as Part VIII.*
- If the taxpayer received a Form 1099-QA, Distribution from ABLE Accounts: determine if the distribution was spent on **qualified expenses** – for the designated beneficiary’s blindness or disability, in maintaining or improving his or her health, independence, or quality of life.

Other Taxes

- o If so, the return is in-scope; the distribution is not reportable as income and does not have to be entered into TaxSlayer
 - The qualified expenses can't be used for any other education benefits
- o If not, Part II of Form 5329 needs to be filled out, which makes the return *out-of-scope*

5329 Part IX – RMD Not Taken

- In the year that a taxpayer reaches 70½ years of age, the taxpayer must begin taking withdrawals from tax-deferred retirement accounts, such as regular IRAs. If the taxpayer failed to take their required minimum distribution (RMD), they may be liable for the excess accumulation surtax (50%), which is computed in Part IX
 - o The RMD amount is shown in box 12b of Form 5498, which the IRA administrator (for example, a bank) should have sent to the taxpayer.
 - **Note:** This form is *not* required in order to do a tax return; do not ask the taxpayer to return with it
 - o There are two exceptions to the withdrawal requirement:
 - The taxpayer may elect to defer taking the RMD in the year in which they reach 70½ years of age; in that case, the taxpayer must essentially do **two** RMD withdrawals in the following year.
 - If the taxpayer is still working for a company, the taxpayer is not required to make withdrawals from that company's 401(k) plans, regardless of age, *if* they still participate in the plan, and *if* the company plan so allows.
 - o The taxpayer is not required to take a RMD from each account; the **total** distribution from accounts subject to RMD requirements must equal or exceed the **total** of the calculated RMD amounts.
 - o SEP and SIMPE IRAs *are* included in these calculations; Roth IRAs are *not*.
- RMD information, including the exact percentage of December 31 balances that are required to be distributed to meet RMD rules, can be found at [irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf](https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf)
- If the taxpayer has failed to take a required distribution, they need to correct the problem by taking the required distribution as soon as possible, which will result in a taking two distributions during the year in which the correcting distribution is taken.
- Go to the last part of the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution]
 - o Enter the RMD amount in the box for “Minimum required distribution for current year”
 - If the taxpayer has more than one retirement account subject to RMD, calculate the total of all RMDs
 - o Enter total distributions in the box for “Amount actually distributed to you in current year”
 - If the taxpayer had distributions (on a Form 1099-R) from more than retirement account, calculate and enter the total of all RMD amounts
- A waiver of the 50% surtax may be requested
 - o This requires describing the circumstances that led to the failure and how the shortfall has been remedied (by taking the required distribution, belatedly)
 - Remediation must be done; the IRS may ask for proof the required distribution was done before approving the waiver. Ideally, remediation will be done before the Form 5329 is sent to the IRS, but if that would delay the return beyond April 18, don't wait for remediation before filing the return.
 - o Per page H-2 of Pub 4012, revision date of October 25, 2016, the production version of TaxSlayer will include the ability, on Form 5329, to request the waiver.
 - o **Note:** As of the print date for this manual, the 2016 instructions for Form 5329 had not been released by the IRS. The **2015** instructions called for a letter of explanation to be attached to the tax return, as well as modification of the second-to-last line on Form 5329.

LINE 60A - HOUSEHOLD EMPLOYMENT TAXES (out-of-scope)

LINE 60B - FIRST-TIME HOMEBUYER CREDIT REPAYMENT, FORM 5405

- 2008 homebuyers who received the First Time Homebuyer credit (2008 Form 1040, line 68) were required to **repay** the credit, starting in 2010 – *the credit was a loan*
 - o The repayment is spread over 15 years, at \$500 per year (so payments could continue through 2024)
- If taxpayer has already repaid their entire credit (ahead of schedule), do not enter any information into TaxSlayer
- If the taxpayer is unsure of the status of repayment, information can be looked up online at www.irs.gov/individuals/first-time-homebuyer-credit-account-look-up

- o **Note:** This link is at the bottom of the **Form 5405 - First-Time Homebuyer Credit and Repayment** page, after the first question on that page is answered
- If the credit has not been fully re-paid, and this is a MFJ return, then separate pages are required for the taxpayer and spouse
 - o Each is credited with half of the repayments made in prior years
 - o If one spouse is deceased, that half of the credit does not have to be repaid; refer to Form 5405 instructions.
- Repayment of some or all of the un-repaid portion of the credit may be required if the home is disposed of
 - o Repayment is affected by whether the house was disposed of at a profit or loss
 - o If the house is no longer the primary residence of the taxpayer because of destruction or condemnation, the return is **out-of-scope**. The taxpayer needs to go to a paid tax preparer or use tax-preparation software
- If the taxpayer *has not* repaid all of the credit, go to the **Form 5405 - First-Time Homebuyer Credit and Repayment** page [Federal Section > Other Taxes > First-time Homebuyer Repayment]
 - o If doing a 2016 or 2015 tax return, the page pertains *only* to the credit given in 2008; if the credit was given in 2009, 2010, or 2011, *do not use this TaxSlayer page* (and see the note below)
 - o If the taxpayer has repaid the minimum - \$500 per year – beginning in 2010, then the “the full amount repaid with your prior year tax returns” would, for the 2016 tax return, be six times \$500, for a total of \$3,000.
 - o If the current year’s return will not be the final one for repayment of the loan, then create a note (page **8**) as a reminder for next year that Form 5405 must again be completed
 - o Click “Continue” when done
- **Note:** The first-time homebuyer credit **claimed during 2009, 2010, and 2011** was essentially a *grant*, not a *loan*.
 - o **However, that credit was subject to repayment** if, with some exceptions, one of the following happened within 36 months of the purchase date (that is, no later than December 31, 2014):
 - There was a disposition of the home, including death of a joint owner or divorce, or
 - The home was no longer used as the main home
 - o *If doing a prior year return for 2013 or 2014*, determine if the taxpayer received a credit in 2009, 2010, or 2011, and, if so, whether repayment of that credit was required.

LINE 61 - HEALTH CARE: INDIVIDUAL RESPONSIBILITY

Health Insurance Section

- The Health Insurance section of TaxSlayer is used primarily to determine whether the taxpayer owes an individual shared responsibility payment (SRP) because of lack of health insurance coverage sometime during the year. But there are also questions in the Health Insurance section related to taxpayers who purchased health coverage on an exchange, and who probably received an advance premium tax credit (APTC). Those questions are covered at Line 46 - Excess Advance Premium Tax Credit Repayment, on page **65**, above.
- For tax year 2016, the penalty for no health insurance for the entire year is \$695 or 2.5% of MAGI, whichever is higher, *per person*. (For persons under 18, this penalty is halved.)
 - o If insurance was missing for only part of the year, then the penalty is adjusted accordingly.
 - o If a taxpayer opts to *not claim a dependent on their tax return* – giving up a deduction and possibly other benefits – the taxpayer is *not liable* for a Shared Responsibility Payment for that dependent.
- The first page of the Health Insurance section asks whether the taxpayer had *some* health insurance during the year. **The question should be answered “Yes” ONLY if the insurance was “Minimum Essential Coverage” (MEC).**
 - o The TaxSlayer page lists examples of MEC, and more can be found on [page ACA-4 of Pub 4012](#).
 - As mentioned on the list, Medicare *is* MEC, as is Medicare (in CA, called “Medi-Cal”)
 - o Most insurance plans are MEC; examples that are not, such as standalone dental and vision plans, are mentioned at the top of that page of Pub 4012
 - o In general, we accept the taxpayer’s word as to what health coverage was in effect. Taxpayers should not be asked to provide documentation or other proof, except when they have Marketplace coverage, in which case they must have a [Form 1095-A, Health Insurance Marketplace Statement](#)
 - o Starting with tax year 2015, some employers and insurers are required to issue [Form 1095-B, Health Coverage](#), and [Form 1095-C, Employer-Provided Health Insurance Offer and Coverage](#). If the taxpayer has such a form, the information on it may be useful (for example, to test whether an employer’s offer was affordable).

Other Taxes

- **Do not ask taxpayers** if they have received such a form from their employer or insurer but failed to bring it with them; either the form is with their other tax documents, or it is not. If it is *not*, under no circumstances should the taxpayer be asked to go home, search for the form, and return at another time.
- For taxpayers with **no health insurance**: the IRS has asked that Tax-Aide volunteers notify such taxpayers that they should visit Healthcare.gov to learn about the options available. The IRS has provided reminder statements that can be given to the taxpayer, in either English or Spanish – see [Pub 5243](#). [It could be helpful to print a few of these in advance.]
- The second TaxSlayer page, also titled Health Insurance Questionnaire, asks “Did you purchase health insurance via HealthCare.gov or a State Marketplace?” If the answer is “**No**”, then line 46 on the Form 1040, and the related line, 69, will be **zero**; if the answer is “**Yes**”, then there will be related questions; again, these are covered in the instructions for Line 46, above.
 - You won’t see this page if the answer to the question on the first page was “No”, no one had any insurance.

Verify Your Household Members

- Make sure that all dependents have been entered under in the Basic Information > Dependents/Qualifying Person section. Do not add them on this Health Insurance screen.
 - **Note:** A penalty is never assessed on a dependent listed in the Basic Information section, but not claimed as an exemption, and therefore *not* in the “taxpayer family”. To exclude such a dependent from being assessed a penalty, report the dependent as having full year coverage.
- If the taxpayer got coverage through the marketplace (so, has a Form 1095-A), **and** received APTC (which is the norm), **and** someone is listed on the 1095-A who is not listed on the tax return, that requires a “shared policy allocation,” which is **out-of-scope** because it requires completion of Part 4 of Form 8962, which is **out-of-scope**.
 - One example might be a child whose parents divorced in 2016.
 - If the taxpayer got married during the year and *chooses* to use the alternative calculation for the year of marriage (Part 5 of Form 8962), then the return is **out-of-scope**.
- TaxSlayer may include, as a “household member”, someone listed in the Basic Information section, but NOT claimed as a dependent, for example, because of divorce decree. (Such a person, though not a dependent, can qualify the taxpayer for other benefits.) If this occurs, the workaround is to indicate that this person has full year coverage, and so is not subject to the SRP (at least not on this taxpayer’s return)

Months Insured

- The next two pages, **Months Insured** and **Specify Insured Months** work together, in the sense that if you specify anything less than 12 months on the first page, for a person, you’ll see the second page for that person.
 - Even a single day of coverage in a month is considered to make the full month to be covered by insurance. So, for example, if a person’s insurance began on January 31, that person *is* covered for the entire month of January.
 - **Warning:** If you specify that a person was insured for at least some months, and later learn the person was uninsured, you must manually *unselect all previously selected months*; simply changing the Months Insured to zero doesn’t clear the list of months that you previously said were covered
- If you answer “Yes”, that the taxpayer’s entire household was insured for all 12 months, then you’re done with this part of the Health Insurance section; Line 61 on the Form 1040 will be zero.

Health Coverage Exemptions

- If a taxpayer didn’t have 12 months of health insurance coverage (MEC) for all members of the taxpayer’s tax family, then the taxpayer may be required to make a shared responsibility payment (Line 61 of the Form 1040). But there are exemptions that can reduce or eliminate this payment.
- If exemptions are claimed, TaxSlayer will prepare a [Form 8965, Health Coverage Exemptions](#). However, Form 8965 is not visible in TaxSlayer except when a PDF of the taxpayer’s return is created.
- The first TaxSlayer page related to exemptions is **Do you qualify for Health Care Exemptions?** The process for answering this yes/no question is:
 - Step 1: Determine if the taxpayer have a filing requirement, as discussed immediately below and on [page ACA-8 of Pub 4012](#). **If there is no filing requirement, answer “No”, regardless of whether the taxpayer qualifies for other exemptions.** Answering “No” will end the questions related to health insurance. TaxSlayer will automatically apply the exemption on Line 7a of Form 8965, and will *not* assess a penalty.

Payments and Refundable Credits

- **Note:** Exemption Code H, which is poorly titled as “Gap in coverage at the beginning of 2016” in TaxSlayer’s pull-down menu, is used for the months in the year prior *to* the birth of a baby, for the months in a year prior to an adoption, and for the months in the year **subsequent** to a death.
- Other places where information can be found about exemptions are:
 - The ACA Compliance Flowchart or the Exemption Quick Reference Guide, available at the OneSupport Help Center in the [Volunteer Portal](#) (volunteers.aarp.org) [in the “Tax Training” section; go to “Affordable Care Act (ACA) Training”]
 - [Form 8965 instructions](#)

Penalty Amount

- As stated above, for tax year 2016, the penalty for no insurance for the entire year is \$695 or 2.5% of MAGI, whichever is higher, *per person*. (For persons under 18, this penalty is halved.)
 - Penalties for prior years are listed on [page ACA-13 of Pub 4012](#)
- If the taxpayer did not have full-year coverage for everyone on the tax return, *look at Line 61 of Form 1040, Page 2*, after completing the Health Insurance section, to compare the amount there (whether zero or a dollar figure) to what is expected.
 - If there is an *unexpected* penalty amount, review Form 8965 (in the PDF of the tax return). Otherwise, go back to the Health Insurance section of TaxSlayer to review what was entered.
- If there is a penalty amount on Line 61, discuss that penalty amount with the taxpayer and review whether they may be eligible for a marketplace exemption. See the hardships listed at the bottom of [page ACA-7 of Pub 4012](#) – the market can grant these retroactively! It would be up to the taxpayer to make the best case they can to the marketplace to get such an exemption.

LINE 62 - OTHER TAXES

- If a **W-2** page has a box 12 code M or N for uncollected Social Security/RRTA or Medicare tax on the taxable cost of group-term life insurance, then TaxSlayer places the uncollected tax amount on this line
- The other taxes that go on this line (from Form 8959, “Additional Medicare Tax”, and 8960, “Net Investment Income Tax”), if applicable, make the return *out-of-scope*

PAYMENTS AND REFUNDABLE CREDITS

LINE 64 - FEDERAL INCOME TAX WITHHELD

- Federal tax withheld is carried to this line from entries on **W-2** pages and some 1099s
- For Form 1099 withholding not entered elsewhere (for example, on a Form 1099-B), go to the **Other Federal Withholdings** page [Federal Section > Payments & Estimates], enter the amount, check the box (if appropriate) and click “Continue”
 - Because there is one field to enter the *total* of all entries, a note (see page **8**) is recommended for *each* entry on this page

LINE 65 - 2016 ESTIMATED TAX PAYMENTS

- These are payments that the taxpayer HAS MADE using Form 1040ES (federal) for the CURRENT tax year, plus any overpayment amount from the prior year that was credited toward estimated taxes for the current year
 - **Note:** See Federal Estimated Tax Payments, below, page **89**, to prepare payment vouchers for NEXT year’s estimated tax payments
- Go to the **Payments - Estimated Payments** page [Federal Section > Payments & Estimates > Federal Estimated Payments for 2016] and enter information using taxpayer information (actual amounts paid) and, if applicable, the prior year’s tax return

LINE 66 - EARNED INCOME CREDIT

- EIC (sometimes referred to as EITC) is available to people who have earned income, subject to income limits.
 - EIC is available to taxpayers at least age 25 (as of year-end) and under age 65 (as of year-end)
 - If MFJ, only one taxpayer has to meet the age requirement
- EIC is a refundable credit – it is not necessary to owe federal tax to claim the credit
- If TaxSlayer has determined that a return does not qualify the taxpayer for EIC, this will be shown at the top of the **Calculation Summary** page – the first page when an existing return is opened (and, of course, available

from the left navigation bar, by clicking “Summary/Print”).

- o The notice (in a box with a light green background) is titled “REASONS FOR NO EARNED INCOME CREDIT (EIC)”.
- o It will normally have the item “EIC Checklist was not Answered Correctly”, which is a misleading phrase, implying an error by the preparer. The phrase actually means one of two things:
 - The **EIC Checklist** page *was correctly* completed, and the taxpayer was disqualified from getting EIC based on one or more answers in that checklist.
 - TaxSlayer has determined that the taxpayer isn’t qualified based on something *other than* what is on the **EIC Checklist** page – for example, the taxpayer’s income is too high for EIC.
- TaxSlayer addresses EIC in two different places – in the Credits part of the Federal Section, and in the e-File section.
 - o In the Credits section, the **EIC** page [Deductions > Enter Myself > Credits Menu > Earned Income Credit (Form 8862); not reachable via the search box] is needed only very infrequently. It used when you need to (a) claim eligibility for the EIC when it has been disallowed in a prior year, or (b) disallow EIC when TaxSlayer has calculated an amount for that credit. [It will be unusual to need to go to this page.]
 - o In the E-file section, on the **EIC Checklist** page. Completing that page is discussed in the EIC Information section, on page [91](#), below.
- To check the amount that TaxSlayer has calculated for EIC, you can go to the **Calculation Summary** page (via Summary/Print on the left navigation bar), and look at the entry on Form 1040, Page 2, Line 66.

LINE 67 - ADDITIONAL CHILD TAX CREDIT

- If a taxpayer’s tax liability is less than the allowable non-refundable CTC, the taxpayer may be able to claim the refundable ACTC
 - o TaxSlayer computes this credit automatically; the calculations are shown on Form 8812
- The ACTC is limited to 15% of any earned income above the current year’s limit (\$3,000)
- The total of the two credits (line 52, non-refundable, and line 67, refundable) will be \$1,000 or less per eligible child

LINE 68 - AMERICAN OPPORTUNITY CREDIT

- Up to 40% (maximum \$1,000) of the AOC may be refundable
 - o See the American Opportunity Credit (AOC) section, above, page [69](#)

LINE 69 - NET PREMIUM TAX CREDIT

- This line will have an amount only if the taxpayer purchased health insurance on an exchange, such as Covered California, and if the advance premium tax credit (APTC), also known as “subsidies”, were less than the taxpayer was entitled to. (Typically, that’s when the taxpayer had *less actual* income in the tax year than the taxpayer told the exchange they *expected* to earn.)
- For details about this credit, see the section Line 46 - Excess Advance Premium Tax Credit Repayment on page [65](#), above.

LINE 70 - AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE

- If the taxpayer requested an extension in the prior year, to delay tax filing for up to six months, the taxpayer **may** have made a payment with that extension request.
 - o Review the prior year’s return – if it was filed after April 18, 2016, ask the taxpayer if an extension (Form 4868 was filed)
 - If yes, and that form is available, check line 7, “Amount you’re paying”, to see if it has a number on that line. Then ask the taxpayer if that amount was *actually* paid
- If the taxpayer filed after April 18, 2016, but no Form 4868 is available, then do not enter anything into TaxSlayer
 - o If the taxpayer did file an extension request and did pay an amount, the IRS will correct the tax return and will issue the taxpayer a refund check for the amount paid with the extension but not reported on line 70.
- If the taxpayer has a Form 4868 for the prior year’s tax return, and confirms that a payment was made, enter that payment into TaxSlayer: go to the **Amount Paid With Extension Request** page [Federal Section > Payments & Estimates]

LINE 71 - EXCESS SOCIAL SECURITY

TaxSlayer makes this entry automatically if there are multiple Form W-2s for an individual and the combined wages exceed the maximum subject to Social Security taxes for the year (\$118,500 for 2016)

LINE 72 - FEDERAL TAX ON FUELS, FORM 4136 (out-of-scope)

LINE 73 - CREDITS 2439 (out-of-scope)

STATE SECTION AND CA ADJUSTMENTS & DIFFERENCES

Suppressing the California Return

- In some cases you won't want to a CA return; for example, the taxpayer did not live in California during the tax year
- In TaxSlayer, you generally need to *specify* which state you want a tax return for. But even if you didn't specify a state, if you don't want a CA return, you should check to make sure that TaxSlayer hasn't decided that you do:
 - Click on "State Section", in the left navigation bar
 - If the TaxSlayer page you see has an option to "Add State Return(s)", you're done
 - If instead you see a **State Return** page, click the "Delete" button to prevent a state return from being created.
- The ERO **must** be made aware that there will be no CA return:
 - In your Activity Reporting log, record that the tax return is "Federal only".
 - Also create a note (page **8**) saying that there is no CA return, if such a note doesn't already exist.

This information in the State Section identifies specific situations that MAY need to be addressed for CA returns. Normally, most of the information in this section isn't relevant to the taxpayer whose return is being prepared.

When CA-Related Changes Take Affect in TaxSlayer

- *Entering information on a page in the State Section **does not change** the displayed CA Refund (or CA Amount Due) until you have clicked "Continue" repeatedly, to reach the **State Return** page. That's because TaxSlayer doesn't do its computations for the state return until you reach the **State Return** page. The delay in doing computations is why TaxSlayer objects if you try to go direct from a State Section page to a page in any other section of the return.*

Renter Credit

- Eligibility:
 - For 2016, CA AGI must be less than \$39,062 (single) or \$78,125 (MFJ, HoH, or QW)
 - Rent was paid on a principal residence in CA for 6 months or more during the tax year
 - Residence can be a mobile home for which the taxpayer pays rent for the land
 - The residence is not exempt from property taxes (typically when the property is owned by a non-profit organization)
 - The taxpayer did not claim a homeowners property tax exemption at any time during the year
- If the taxpayer is ineligible, answer "No" to the question "Do you qualify for the Renter's Credit?" otherwise answer "Yes"
- If you answer "Yes", you will *not* be asked for any further information. The FTB does not require that any supporting information be submitted with the CA return, though, of course, the taxpayer must be prepared to substantiate that they do pay rent, if audited
- The Renter Credit will show on CA Form 540, Page 2, Line 46, **if** the question was answered "Yes", and **if** line 34, "Tax", is not zero. (This is a *non-refundable* credit.)

BASIC INFORMATION

- This menu page has links to four pages; information on those pages should generally have been entered (or noted as being *needed to be entered*) when completing the Federal Section.

Head of Household

- California requires an additional form, CA Form 3532, be filled out for those filing as HoH. Information about that form is in the Head of Household section, on page **15**, above.

Additional Personal Information

- This page collects information on whether the taxpayer or spouse is a dependent of another person, name or address changes, and the name of the person being paid alimony. Directions to enter that information are found in various, logical places above.

Active Duty Military Information

- This page is *out-of-scope* except for military sites

Deceased Taxpayer or Spouse

- This page collects information needed for the CA Form 8889, for e-filing, if the taxpayer or spouse has died.
- On the page **Complete if the Taxpayer or Spouse listed on the return is deceased** [State Section > Basic Information], complete the required information:
 - After selecting a representative type, enter a name into the next field.
 - If the representative type is “Spouse”, then the second field should be the name of the surviving spouse.
 - Complete the decedent representative information. This may be confusing:
 - If the person listed on the second line of the return (typically referred to as “Spouse”) is deceased, then fill in the second, fourth, and sixth boxes with the name (first, middle initial, last) of the Taxpayer (the first name on the return).
- If the Taxpayer (first name on the return) is deceased, then do the opposite: fill in the first, third, and fifth boxes with the name of the Spouse.

ADJUSTMENTS AND DIFFERENCES

- While California generally follows federal tax law, there are a number of situations where California and the federal law differ – see [FTB Pub 1001, Supplemental Guidelines to California Adjustments](#), for more information
- When these differences lead to adjustments on the CA tax return, the adjustments are listed in CA Schedule CA
 - An example is Social Security benefits, which are taxable up to 85% on the federal return, but which are not taxed at all by California.
 - In TaxSlayer, the CA Schedule CA is only viewable by looking at the PDF of the tax return (click on “Preview Return”, in the upper right of the screen).
- In most cases, TaxSlayer will make the appropriate adjustments from entries on the federal forms
 - Where TaxSlayer does not make the appropriate adjustment, the word “manually” is used to indicate that counselors must make entries in TaxSlayer.
- Preparers and reviewers should verify all entries on the CA Schedule CA, if that form appears in the PDF for the tax return.
 - Entries on this form are relatively rare; it could be a good idea to create a list, while doing the Federal Section, of all expected entries on the CA Schedule CA, and comparing that list to the form as it appears in the PDF for the tax return, when done with the return.

Manually Entering Income Differences on CA Schedule CA

- When the federal return and the CA return differ with regard to the taxability of income, **and** TaxSlayer does not automatically handle the difference (posting to CA Schedule CA), then the difference must be entered manually:
 - In the State Section, select “Addition to Income” or “Subtractions from Income”, then “Begin” or “Edit”
 - If making the first entry on the **Other Additions** page [you’ll have clicked “Begin”], after you enter the amount and description, create a note (page **8**) that says “Addition to CA Income – line 21f of CA Schedule CA, because of [include an explanation]” and the amount.
 - Creating a note is important because if there are other additions to be entered on this TaxSlayer page, the two (or more) amounts will need to be combined into a single, total figure.
 - The note is also a reminder to do an entry on a page in the State Section, as described below.
 - If there is already an entry on the **Other Additions** page [you’ll have clicked “Edit”], there should already be a note – find it (or create it, if necessary, after identifying the source document); then add information

State Section and CA Adjustments & Differences

about the second (or subsequent) addition of income. Then change the amount on the TaxSlayer page, and change the description to “Various”

- o If making an entry on the **Other Subtractions** page, follow the same process (but *don't* combine additions and subtractions in the same note; there should be separate notes)
- The addition(s) or subtraction(s) amounts on these two TaxSlayer pages will appear on line 21f of the CA Schedule CA, as a *combined* total, which may also include CA Lottery winnings (see the section Gambling Winnings - Form W-2G, on page 49, above)

INCOME EXCLUDIBLE FOR CA

California assesses income taxes on worldwide income except for:

- Ridesharing fringe benefits - the employer should have reported this difference by reporting different state wages on Form W-2
 - o The CA adjustment must be **manually** entered.
- Clergy housing income – see [FTB Pub 1001](#) (tax provisions peculiar to clergy make the return *out-of-scope*)
- Indian tribal members' income, if the member lives and works on their own tribe's land – see W-2 Form - Indian Tribal Income above, page 24, or 1099-MISC Income on Line 21, above, page 50
 - o The CA adjustment must be **manually** entered
- Interest paid on municipal bonds issued by the state of California, including counties, cities, and agencies - see the section Tax-Exempt Interest Income on Form 1099-INT, on page 27, above.
 - o TaxSlayer's page allows an amount of tax-exempt interest to be specified as *taxable* on the state return; if not so specified, then it is automatically treated as not taxable at the state level.
- Interest earned from U.S. Government Savings Bonds, U.S. Treasury Bills, and any other bond of the U.S. or U.S. territories – see above, page 26
 - o TaxSlayer's page allows such interest to be specified as *not taxable* by California; this should be done
- Dividends from CA municipal bond fund: tax-exempt dividends are entered on the same page as for tax-exempt interest - see the section Tax-Exempt Interest Income on Form 1099-INT, on page 27
 - o The amount to be taxable, if any, by the state can be specified
- Dividends from U.S. government bond funds – see 1040 Line 9 above, page 28
 - o TaxSlayer provides a line to enter the adjustment on the page for the 1099-DIV information
- Any state tax refunds (1040 Line 10 above, page 29)
 - o TaxSlayer automatically makes the adjustment
- Tier II Railroad Retirement benefits (1040 Line 15/16 above, page 45)
 - o TaxSlayer automatically makes the adjustment
- Unemployment compensation paid by CA or another state (1040 Line 19 above, page 47)
 - o TaxSlayer automatically makes the adjustment
- Social Security benefits (U.S. only) (1040 Line 20 above, page 47)
 - o TaxSlayer automatically makes the adjustment
- Tier 1 Railroad Retirement benefits (1040 Line 20 above, page 48)
 - o TaxSlayer automatically makes the adjustment
- CA Lottery winnings (1040 Line 21 above, page 49) (lottery winnings from other states are taxable for CA)
 - o The CA adjustment must be **manually** entered.
- Government-agency authorized reward from a crime hotline (see [FTB Pub 1001](#))
 - o The CA adjustment must be **manually** entered.
- HSA distribution in excess of qualified medical expenses – see Health Savings Accounts in CA, above, page 84
 - o The CA adjustment must be **manually** entered.

INCOME INCLUDIBLE FOR CA

California taxes certain items, which are not taxable on the federal return:

- Wages – HSA employer contributions – see Health Savings Accounts in CA, below, page 84
 - o The CA adjustment must be **manually** entered.
- Interest from non-CA state and municipal bonds – see 1040 Line 8 above, page 27
 - o TaxSlayer's page allows an amount of tax-exempt interest to be specified as *taxable* on the state return
- Interest or other income earned in an HSA – see Health Savings Accounts in CA, below, page 84
 - o The CA adjustment must be **manually** entered.

- Dividends from non-CA municipal bond funds – see 1040 Line 9 above, page **28**
 - The amount to be taxable, if any, by the state can be specified
- Retirement payments from foreign governments, all of which are *out-of-scope* except Canadian and German Social Security - see above, page **49**
 - The CA adjustment must be **manually** entered.
- Discharge of indebtedness excludible on the federal return:
 - For tax years beginning with 2014, California does not conform to the federal exclusion of income from forgiven debt on a taxpayer’s principal residence. If a taxpayer has a Form 1099-A or Form 1099-C for one of these years, and that form pertains to their principal residence, the return is *out-of-scope*. (More information at ftb.ca.gov/aboutFTB/newsroom/Mortgage_Debt_Relief_Law.shtml)
 - Discharge of this type of indebtedness already makes the federal return *out-of-scope*, so conformity to California law is not an issue.

Military Income

- See [FTB Pub 1032, Tax Information for Military Personnel](#), for differences – *must have Military certification to prepare such returns*
- If such income is reported in the Federal Section, then in the State Section, go to the **Subtractions from Income** page, select “Active Duty Military Pay”, and enter the amount of that income.

Inherited Property Basis Difference (above, page **35**)

- For CA, for property inherited from decedents dying in 2010, the basis is the fair market value (FMV) as the date of death
- The federal basis may be different, as shown on the [Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent \(2010\)](#) – if so, the return is *out-of-scope*

IRA Basis Difference

- **Note:** For the federal return, the IRA basis recovery is on Form 8606 Part I
- There may be a basis difference for CA as shown in the table below
- The taxpayer must have records showing the amount contributed for each of these years and the amount deducted for federal and CA, if any
 - Without records, there will be no adjustment of the taxable IRA distribution
- Generally, CA basis in excess of federal basis is applied to reduce the amount of taxable IRA distribution until CA basis is the same as federal basis
 - Thereafter, no further adjustment would be needed as CA follows federal IRA basis recovery rules
- [FTB Pub 1005](#) has detailed instructions and worksheets

Year	Federal	California
1975	Maximum deduction of \$1,500	No IRA deduction
1982-1986	Maximum of \$2,000; must be earned income	Maximum of \$1,500; not allowed if covered by pension plan
1987-1994	IRA limited to net federal <i>Schedule C</i> income plus wages	IRA limited to net income on <i>CA C Page 1</i> if less than federal
2007-2009	AGI limits increased for deductible IRA for active participants	CA AGI limits lower, allowed deduction could have been lower
2007-2009	Catch-up provisions	Non-conformity
1987 - Present	Non-deductible contributions	Separate election

Capital Loss Carryover (CA Schedule D)

- Capital loss carryover amounts can vary between federal and CA - see above, page **36**, for how to determine this, and to handle it.

DEDUCTIONS TREATED DIFFERENTLY BY CA

- CA treats some Schedule A itemized deductions differently than how they are handled on the federal return. Such differences belong on lines 39 and 41 of CA Schedule CA, Page 2. Adjustments to deductions can be entered manually when TaxSlayer does not handle them automatically

State Section and CA Adjustments & Differences

- o To manually adjust deductions, in the State Section, select “Itemized Deductions”, then click “Begin” or “Edit”
- o In the dollar field, a negative amount can be entered. For example, CA Lottery losses entered on line 28 of the federal Schedule A aren’t deductible on the CA return, because CA Lottery *winnings*, reported on Line of Form 1040, aren’t taxable in CA, and should have been removed from the CA return by an entry on CA Schedule CA. So, if there were \$1000 of CA winnings, and an offsetting \$1000 of losses, enter \$-1000 for the dollar amount on the **Itemized Deductions** page in the State Section.
- o Only a single dollar amount can be entered into TaxSlayer for the total of all manual adjustments for deductions. This will appear on line 41 of CA Schedule CA, in the PDF for the tax return

Allowed by CA

- Educator expenses for which a federal adjustment was claimed on Line 23 of the Form 1040, see above, page **53**
 - o TaxSlayer automatically makes the adjustment for *income*, but does not make an adjustment for *itemized deductions*.
- Medical Expenses reimbursed by HSA distribution – see Health Savings Accounts in CA, below, page **84**, in the next section
 - o Any CA adjustment must be **manually** entered
- Work-related expenses for which a federal education credit or tuition and fees adjustment was claimed
 - o TaxSlayer automatically makes the adjustment for *taxable income* if the tuition and fees deduction was taken, but does not make an adjustment for *itemized deductions* for either the tuition and fees deduction (see page **56**), or either of the two education credits (see page **70**). (**Note:** Such educational expenses must be work-related; see the relevant sections for details).

Not allowed by CA

- State or local income taxes (Schedule A, line 5) – see page **59**
 - o TaxSlayer automatically makes the adjustment
- Foreign income taxes (Schedule A, line 8) – see page **61**
 - o The CA adjustment must be **manually** entered; note that line 8 is all other taxes, not just foreign taxes
- PMI deducted as interest on the federal return (Schedule A, line 13) – see page **62**
 - o TaxSlayer automatically makes the adjustment
- Gifts to charity on the federal return (Schedule A, line 16) that were used for the College Access Tax Credit Code 235 CA Form 540, Page 2, Line 43-45- see page **85**
 - o The CA adjustment, in the amount of the credit, must be **manually** entered
- CA Lottery gambling losses (Schedule A, line 28) – see page **65**
 - o The CA adjustment must be **manually** entered.

HEALTH SAVINGS ACCOUNTS IN CA

- CA does not recognize HSAs nor the trust that is created for federal tax purposes
 - o This can impact many parts of a return
- Form W-2 – contributions made by an employer to a Health Savings Account, shown in box 12 with code W, are not federally taxable, **but** they are taxable by California. The federal income on the Form W-2 is reduced by the amount in box 12, but this amount is taxable and **must be manually added**:
 - o Follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, on page **81**, above.
- Interest or other income earned in an HSA account is taxable on the CA return
 - o Follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, on page **81**, above.
- Capital gains or losses within the HSA trust are taxable by California
 - o As of the print date of this manual, there is no way to make this adjustment
 - o **Note:** an adjustment may result in a different capital loss carryover for CA purposes
 - As of the print date of this manual, TaxSlayer does not distinguish CA capital loss carryovers from federal capital loss carryovers
- HSA contributions made by the employee (Line 25 of the Form 1040) reduce taxable income on the federal return, but CA does not recognize such reductions

- o TaxSlayer automatically makes an entry on line 25 of CA Schedule CA to adjust for CA rules
- If there are HSA distributions in excess of qualified medical expenses, on Form 8889, TaxSlayer includes the distribution in income on the federal return (on line 21, Other Income); but it is not taxable for CA
 - o Follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, on page **81**, above.
- TaxSlayer does not carry medical expenses reimbursed by the HSA, as shown on Form 8889, and not deducted on federal Schedule A, to CA Schedule CA. A manual adjustment is needed
 - o Follow the procedure in the section Deductions Treated Differently by CA, on page **84**, above

CA-ONLY CREDITS

- All but one of the California-only credits are reached from **Credits** page in the State Section. On the **Credits** page, Child Care Credit, Renter Credit, and “Schedule S, Other State Tax Credit” are specifically listed
 - o The **CA Earned Income Credit (Form 3514)** page is reached from the **Payments** page in the State Section.
 - o Schedule S, Other State Tax Credit, is *out-of-scope*
 - If the taxpayer decides to not claim credit for taxes paid to the other state(s), then Schedule S is not needed and does not cause a scope issue. If the taxpayer does want to claim this credit, the taxpayer needs to use a paid tax preparer or tax preparation software.
 - o For all other credits, use the **Other Credits** link
 - As of the print date of this manual, TaxSlayer allows a maximum of *two* credits to be entered on the **Other Credits** page
- All of California’s credits are *non-refundable* except for the EITC. If line 34, “Tax”, is zero, then only the EITC will generate a tax refund for the taxpayer.

Child and Dependent Care Credit (CA 3506) CA Form 540, Page 2, Line 40

- See Line 49 - Credit for Child and Dependent Care Expenses, on page **67**, regarding how to enter information for this credit. .

College Access Tax Credit Code 235 CA Form 540, Page 2, Line 43-45

- This credit, which began in tax year 2014, is for individuals who make cash contributions to the College Access Tax Credit (CATC) Fund
- Donors must apply for the credit and get certified by the California Educational Facilities Authority (CEFA) before they can make the donation
- The amount of the credit for each tax year is calculated as:
 - o 60% of the amount contributed for the 2014 tax year
 - o 55% of the amount contributed for the 2015 tax year
 - o 50% of the amount contributed for the 2016 tax year
 - o 50% of the amount contributed for the 2017 tax years
- If the taxpayer itemizes on the CA return, and this contribution is on Schedule A, then the amount of the *credit on the CA return* must be subtracted from the itemized deduction
 - o See the section Deductions Treated Differently by CA, on page **84**, above, for how to make that adjustment

Joint Custody Head of Household Credit Code 170 CA Form 540, Page 2, Line 43-45

- This credit is available to a person who files as Single or as MFS if
 - o The person paid more than one-half the household expenses for their home
 - o Which is the main home of the taxpayer’s child, step-child, or grandchild for at least 146 days but less than 219 days of the taxable year
 - o And the custody arrangement for the child is part of a decree of dissolution or legal separation, or part of a written agreement entered into before the final decree is issued
- If MFS, the taxpayer must have lived apart from their spouse/RDP for the entire tax year
- The credit is 30% of the tax due (CA Form 540, Page 2, line 35), limited to a maximum of \$440 in 2016
- The credit cannot be claimed if the Dependent Parent Credit, code 173, is claimed
- See FTB [Instructions for Form 540](#) if there are any questions about entitlement to this credit

Dependent Parent Credit Code 173 CA Form 540, Page 2, Line 43-45

- **Note:** There are very limited situations where a MFS return is in-scope – see above, page **14**

State Section and CA Adjustments & Differences

- This credit is available to a person filing MFS who
 - cannot claim Head of Household status
 - because they have no dependent child that would qualify them as “considered unmarried”
 - but does have a dependent parent(s)
 - for which the taxpayer paid more than half the household expenses
- The taxpayer must have lived apart from their spouse/RDP for the last half of the tax year
- The credit is 30% of the tax due (CA Form 540, Page 2, line 35), with a maximum credit of \$440 in 2016
- **Note:** The credit cannot be claimed if the Joint Custody HoH Credit code 170 is claimed
- FTB [Instructions for Form 540](#) has full details, if there are questions.

Senior Head of Household Credit Code 163 CA Form 540, Page 2, Line 43-45

- This credit is available for a person 65 or older who
 - Qualified as head of household for 2014 or 2015
 - Does not qualify for HoH in 2016 because the qualifying relative for HoH died in 2014 or 2015
 - Whose AGI does not exceed \$71,370 for 2016 – **caution, TaxSlayer may not apply this income limit properly**
- See FTB [Instructions for Form 540](#) for full details
- The credit is 2% of CA Taxable Income (CA Form 540, Page 2, line 19), but not more than \$1,345 for 2016.

Child Adoption Credit Code 197-- out-of-scope

Renter Credit CA Form 540, Page 2, Line 46

- Since TaxSlayer asks about this credit for *every* CA return, the information on this credit is near the top of the State Section - see page [80](#)

California Earned Income Tax Credit (EITC) CA Form 540, Page 2, Line 75

- Beginning in 2015, CA has a refundable state EITC. The credit, which appears on CA Form 540, Page 3, line 75, can be as much as \$3,471 for 2016.
- Eligibility:
 - For 2016, CA AGI must be less than \$6,718 if there are **no** qualifying children, less than \$10,088 if there is **one** qualifying child, or less than \$14,162 if there are **two or more** qualifying children.
 - If there is no qualifying child, the taxpayer (or spouse, if a MFJ joint return) must be between 25 and 65 years old at the end of the tax year
 - The credit is based on earned income reported on a Form W-2, such as wages, salaries, and tips, which must be subject to California withholding
 - Unlike the federal EIC, income from self-employment does not qualify for the California EITC
 - The taxpayer, spouse, and any qualifying children must each have a social security number issued by the Social Security Administration that is valid for employment
 - Filing status cannot be MFS
- FTB 3514, California Earned Income Tax Credit, must be completed and filed with the return
 - Information for this credit is entered on the **CA Earned Income Credit (Form 3514)** page, which is reached from the **Payments** menu page, *not* the **Credits** menu page
 - For the question asking the number of days that the child lived with the taxpayer: in the case of a birth and/or death of a child during the tax year, enter “365” as the number of days.
 - **Note:** As of the print date of this manual, TaxSlayer does not specifically request this information

CA USE TAX

- On the **California State Return** menu, click “Tax” to go to the **Tax** page, to report the amount of CA use tax due on purchases of goods from out-of-state sellers, where such sellers did **not** charge California sales tax.
 - **Note:** Goods purchased outside the U.S., carried into the U.S. (not shipped), and declared for customs purposes are subject to use tax to the extent they exceed \$800 in value
- If one or more items costing \$1,000 or more were purchased without sales tax being charged, then the use tax must be calculated using the use tax worksheet found in the [CA Form 540 instructions](#)
 - If all goods purchased were (each) less than \$1,000, the Estimated Use Tax Lookup Table at www.boe.ca.gov/info/use_tax_table.html can be used

- As of the print date of this manual, the “Click here to use the Use Tax Worksheet” link in TaxSlayer did not work; if that problem is corrected, that link may be the fastest way to calculate the use tax
- Credit for payment of another state’s sales tax can be claimed, if assessed, to the extent of the applicable CA use tax on that purchase

CA-ONLY VOLUNTARY CONTRIBUTIONS

- California allows the taxpayer to make contributions to any special funds listed on CA Form 540, Page 4
- Unlike giving \$3 to the Presidential Election Campaign Fund, a CA contribution increases the amount due or decreases the amount of the refund
- If the taxpayer wants to make such a contribution, then from the **California State Return** menu, go to the **Voluntary Contributions** page

STATE TAX WITHHELD

- CA taxes withheld from a Form W-2, W-2G, or 1099-R will appear on CA Form 540, Page 3, line 71, if entered on the respective pages in the Federal Section. **However, TaxSlayer pages for other 1099 forms do not have lines to enter state taxes withheld.**
 - Those other 1099 forms are 1099-B, 1099-DIV, 1099-G, 1099-INT, 1099-MISC, and 1099-OID.
- For state withholdings amounts that appear on forms *other than W-2, W-2G, and 1099-R*, enter the amount of the state withholding on the **Payments - Other State Withholding** page [Federal Section > Payments & Estimates] > Withholdings from Form 1099]
 - If making the first entry on the **Payments - Other State Withholding** page, create a note (page 8) that says “State withholding on 1099-INT” [or similar, depending on the form, of course], and the amount.
 - Creating a note is important because if there is other state withholding to be entered on the **Payments - Other State Withholding** page, the two (or more) withholdings will need to be combined into a single, total figure.
 - The note is also a reminder to do an entry on a page in the State Section, as described below.
 - If there is already an entry on the **Payments - Other State Withholding** page, there should already be a note – find it (or create it, if necessary, after identifying the source document); add the information about state withholding on the second (or subsequent) form to that note
- If the taxpayer is itemizing, the amount on the **Payments - Other State Withholding** page should be included on line 5a of Schedule A
- The amount on the **Payments - Other State Withholding** page should be included in the amount on CA Form 540, Page 3, line 71. TaxSlayer does not do this automatically. *The amount must be entered again, in the State Section.* After completing the Federal Section, go to the **Withholdings from Form 1099** page in the State Section (reached by selecting “Payments” on the **California State Return** menu page).
- If state tax withholding is done from more than form 1099, other than 1099-Rs, then the state tax return must be **paper filed**:
 - E-filing of a CA return that has more than one withholdings from such forms will result in a CA reject, with reject code CA 41
- **Note:** CA tax withheld from a state-only form (for example, on a CA Form 593, Real Estate Withholding Statement, which is entered in the State Section, as described in the section Sale of Main Home, which begins on page 37, above) should show on CA Form 540, Page 3, line 73

STATE ESTIMATED TAX PAYMENTS

- These are payments that the taxpayer HAS MADE using CA Form 540-ES for the CURRENT tax year, plus any overpayment amount from the prior year that was credited toward estimated taxes for the current year
 - **Note:** See the section CA Estimated Tax Payments (CA Form 540-ES) below, page 90, if payment vouchers are needed for NEXT year’s estimated tax payments
- Go to the **Payments – State Estimated Payments** page [Federal Section > Payments & Estimates > State Estimated Payments] and enter information using taxpayer information (actual amounts paid) and, if applicable, the prior year’s tax return
- All payments listed on this page will be carried to line 5a of Schedule A, as an amount that might be used for an itemized deduction

BALANCE DUE

- Most taxpayers will pay the balance due by mailing a check, together with a payment voucher form (Form 1040-V, for federal; CA Form 3582, for CA), to the IRS and/or FTB (addresses are on page iv, above). But taxpayers can pay in other ways: by providing information on their tax return for a direct debit (taking money directly from a bank account), or by various direct pay options, which include paying by credit card.
- If a taxpayer cannot pay at all, or cannot pay in full, see the “Unable to Pay/Late Filing” section on page 99, below.

UNDERPAYMENT PENALTIES

- Calculation of estimated tax penalties is *out-of-scope*
- If the taxpayer owes the IRS more than \$1,000 or CA more than \$500, the taxpayer may be billed by the IRS and/or FTB for the penalty
- Inform the taxpayer of potential penalty(ies), that the penalty(ies) will not be on the return, and that the IRS and/or FTB *may* send them a bill for the penalty amount(s)

Federal Penalty

- When you start the e-File section, if the taxpayer owes more than \$1,000, you’ll see a warning that includes “You may be subject to an estimated tax penalty.” The warning also includes information on how to get to the TaxSlayer page to enter information for Form 2210, to calculate the penalty. *Do not enter information for Form 2210; it is out-of-scope.*
- The federal penalty – if Form 2210 is filled out by mistake – shows on line 79 of the Form 1040.
 - To remove the amount of line 79, enter “2210” in the search box, which will take you to the **Underpayment of Estimated Tax** page. Put \$1 in the “Prior year’s tax” field, set the payment date to 4 – 18 – 2016, and click “Continue”

CA Penalty

- Do not enter any information into the **Underpayment of Estimated Tax, Form 5805** page, in the State Section.
- The CA penalty – if CA Form 5805 is filled out by mistake – shows on line 113 of the Form 540 (on page 5).
 - If the page is mistakenly filled out, go to the page (State Section > Miscellaneous Forms) and change the answer to the first question to “No”.

DIRECT DEBIT

- When a taxpayer has a federal or state balance due, they may specify that it should be paid by a direct withdrawal from their bank account
- Bank account information is entered in the e-File section – see E-File Page, page 92, above, for details

DIRECT PAY

- **Federal:** After Tax-Aide has e-filed a return, the taxpayer can go to [IRS.gov/Payments](https://www.irs.gov/Payments) to pay a balance due on that return, or to make a quarterly estimated payment
 - One option is “Pay Directly from Your Bank Account”; this is functionally the same as direct debit
 - There is no fee
 - Another option is “Pay with Your Debit or Credit Card”
 - Processing fees are charged (and paid to third parties). For credit cards, the fee is approximately 2 percent of the payment; this varies by processing company, and is clearly shown on the IRS page where the taxpayer would make the payment
- **CA:** The taxpayer can go to ftb.ca.gov to see a similar range of options.

REFUND DUE

DIRECT DEPOSIT

- Specifying what should be done with a federal and/or state refund is done in the e-File section of TaxSlayer, on the E-File Page as described on page 92, below
- A taxpayer’s federal refund can be deposited directly to the one or more taxpayer bank accounts, which

- o Eliminates printing and mailing a check and
- o Gets the refund to the taxpayer at least one week sooner
- **For the CA refund**, TaxSlayer uses the **first-listed bank account** in the “Taxpayer Bank Account Information” section of the **E-File** page
 - o In TaxSlayer, the CA refund cannot be split between two or more bank accounts.
- The taxpayer is **not** notified by the IRS or FTB when the refund has been deposited, but it is possible for taxpayers to check online:
 - o Federal: irs.gov/refunds
 - o CA: ftb.ca.gov/online/refund/

APPLICATION OF OVERPAYMENTS TO NEXT YEAR’S TAX RETURN

Federal

- A refund can be applied to next year’s tax return. This is **not recommended**:
 - o If the prior year paper return is not brought in by the taxpayer, or the current year return has no Carry Forward data, there is a good chance that the taxpayer will not remember that an amount was applied, or how much.
 - o If there was any change to the return – either by the IRS, or by an amended return, the amount shown on the printed Form 1040, Page 2, as being applied, will probably have been affected. The taxpayer may not remember or mention such a change.
- However if the taxpayer insists, proceed as follows:
 - o Go to the **Payment Apply Refund** page [Federal Section > Payments & Estimates > Apply Overpayment to Next Year’s Taxes] and enter the amount – which can be less than the full refund – which will be applied toward next year’s taxes.

State

- To apply some or all of a state refund to next year’s state tax return, go to the **Apply your State Refund to your 2016 tax return** page [State Section > Payments]

INJURED SPOUSE CLAIM

- If there is a refund due (because of withholding or estimates paid by the taxpayer) and that refund will be offset by debts to the IRS of the spouse, debts that originated before marriage, the taxpayer may request that a Form 8379, Injured Spouse Allocation, be filed with the return
- **CA Note:** Because Form 8379 requires income-splitting, it makes the return **out-of-scope** in California, which is a community property state.
- **CA Note:** There is no equivalent provision for the state tax return.

ESTIMATED TAX PAYMENTS FOR NEXT YEAR

FEDERAL ESTIMATED TAX PAYMENTS

- If a taxpayer expects a balance due of \$1,000 or more for the next year’s tax return, and wants to avoid the risk that the IRS will assess a penalty for underpayment, they should do one or more of the following:
 - o Increase withholding from their paychecks using [Form W-4](#), available online or from their employer
 - Withholding can be increased by *decreasing* the number of allowances claimed (line 5 of the form) or a starting or increasing a specific additional dollar amount to be withheld with each paycheck (line 6 of the form)
 - o Increase withholding from their retirement income using [Form W-4P](#), which can be completed online and then printed
 - o Increase withholding from federal payments (for example, Social Security), using [Form W-4V](#), which can be completed online, and then printed
 - o **Make estimated payments, as described in this section**
- To determine the quarterly amount for estimated tax payments (normally these are set to be equal):
 - o If no substantial change in income is expected for calendar year 2017, compared to 2016, the 2016 return can be used as the basis for determining the amounts to be printed on each Form 1040-ES
 - o If a substantial change in income, filing status, dependents, or credits is expected in 2017, or has already happened by the time the 2016 return is being prepared, you may want to print the “2017 Estimated Tax

Estimated Tax Payments for Next Year

Worksheet”, from the [instructions for Form 1040-ES](#), and fill that out with the taxpayer, to determine the estimated payments amounts

- Once the desired quarterly amounts have been calculated, go to the **Estimated Payments for Next Year** page [Federal Section > Payments & Estimates > Vouchers for Next Year's Estimated Payments] and enter the amounts
 - Four 1040-ES forms will print as part of the PDF for the tax return
 - Make sure that the taxpayer understands that it is not *required*, when making the quarterly payment, to pay *exactly* what is on the printed page. If the taxpayer is mailing the 1040-ES, the check can be for a different amount, If it is, the taxpayer should line through the printed amount on the Form 1040-ES, and write in the actual amount being paid
- Quarterly payments can be made in several different ways, although paying by check, through the mail, is the most common.
 - If a quarterly payment of estimated tax is made by mail, it should be done separately from mailing the 1040-V payment voucher or the federal tax return. The mailing address is listed on the page Where to Mail Returns and Payments, above, page iv
 - Taxpayers may also make estimated tax payments by an ACH withdrawal from their bank account, or by other methods such as a credit card (for which there is an additional fee). The options are described at [IRS.gov/payments](#).

CA ESTIMATED TAX PAYMENTS (CA FORM 540-ES)

- If a taxpayer expects a balance due of \$500 or more on the 2017 California tax return, they may
 - Increase withholding from their paychecks ([Form DE 4](#) should be available from their employer)
 - Increase withholding from their retirement income (Form DE 4P is available at [edd.ca.gov/pdf_pub_ctr/de4p.pdf](#); it can be completed online and then printed)
 - **Note:** State tax cannot be withheld from Social Security payments, nor from unemployment payments
 - If withholding will be insufficient, the taxpayer should make estimated payments in order to avoid penalties
- CA estimated payment requirements are slightly different from the IRS requirements, but are generally close enough that the same procedures can be used to estimate the tax:
 - If the 2016 and 2017 tax returns are expected to be about the same, use the CA 540 for 2016 to determine how much in estimated payments should be made in 2017
 - If a substantial change in income, filing status, dependents, or credits is expected in 2017, or has already happened by the time the 2016 return is being prepared, consider using the 2016 California Estimated Tax Worksheet, which is in the instructions for the CA Form 540-ES
- The FTB states that a taxpayer must pay at least the following to avoid a penalty for estimated taxes:
 - 30 percent first quarter (due mid-April 2017)
 - 40 percent second quarter (due mid-June 2017)
 - 0 percent third quarter (due mid-September 2017)
 - 30 percent fourth quarter (due mid-January 2018)
- Although the stated amount for the third quarter is 0 percent, CA Form 540-ES *does* include a form to be mailed in the third quarter, and TaxSlayer *does* print the third quarter form even when the dollar amount entered into TaxSlayer for that quarter is zero.
- To create CA 540-ES vouchers, go to the **Estimated Payment Vouchers, Form 540ES** page [State Section > Miscellaneous Forms] and enter the dollar amounts for each quarter. Use the same process for calculating the estimated tax as used for federal (above)
 - Use the percentages stated above (30-40-0-30) to allocate the total amount of estimated payments that the taxpayer wants to make.
- The 540-ES forms will print as part of the PDF for the tax return
 - Make sure that the taxpayer understands that it is not *required*, when mailing in a Form 540-ES, to pay *exactly* what is on the printed page. They can write a check for a different amount; if they do, they should simply line through the printed amount on the Form 1040-ES, and write in the actual amount being paid
 - Taxpayers do not have to pay by mail, with a check, though that is the most common option. They can also pay by credit card (there is an additional fee) or by direct debit from a bank account. For a complete list of options, see [ftb.ca.gov/online/payment_choices.shtml](#)

E-FILE SECTION

- In TaxSlayer, the “e-File” section is the final section in preparing a return. It must be completed for **all** returns, including paper returns
- The e-File section is dynamically created by TaxSlayer based on errors, warnings, and information determined to be needed for the return
- This section describes completing the process for going through the e-File section **as the preparer**. For actions to be taken by the **reviewer** in the e-File section, see Quality Review, page [94](#), below.

Warnings Page

- If there are Notes for the return (see page [8](#), above), their content will show on the **Warnings Concerning Your Federal Return** page.
 - Notes may require action; all of them should be reviewed.
- Also listed on this first page are TaxSlayer-determined *warnings*, generally for missing information.
 - TaxSlayer normally provides a link to click, to go to a page where the problem can be fixed. Normally these warnings are fixed before quality review begins
 - Warnings usually will not prevent a return from being e-filed
- If there are no notes or warnings, this page won’t be shown

Errors Page

- If there are *errors* on the return that TaxSlayer has identified, this page will be shown, and will list errors.
 - Clicking on “Visit” will take you to the page where you can correct a listed error.
 - Errors that are not corrected will prevent the e-File section from being finished.
- If there are no errors, this page won’t be shown

EIC Information

- If the taxpayer might qualify for EIC, the next page will be the **EIC Checklist** page. This is where TaxSlayer makes asks a number of questions to determine whether EIC should be on the return.
 - EIC is limited to taxpayers who are least age 25 (as of year-end) and under age 65 (as of year-end), *if* there is no qualifying child
 - If MFJ, only one taxpayer has to meet the age requirement
 - Higher income limits apply when there is more than one qualifying child, up to three children
 - Detailed information about EIC can be found on [pages I-1 through I-6 of Pub 4012](#)
 - Note that the taxpayer can claim a child, for EIC purposes, who lives with the taxpayer even though that child cannot be claimed as a dependent because the child provided more than one half of their own support or because the noncustodial parent is claiming the dependent
- *If you think that the taxpayer is eligible for EIC, but do not see the **EIC Checklist** page immediately upon starting the e-File section (or immediately after warnings and/or errors):*
 - Check [page I-3 of Pub 4012](#) for income limits
 - See Line 66 - Earned Income Credit, on page [78](#), above, regarding where TaxSlayer may have disallowed EIC in the Credits part of the Federal Section
- The questions on the **EIC Checklist** page are mostly self-explanatory. However, these may not be:
 - In the *Qualifying Information* section:
 - The answer to the third question, about Form 8867 and/or due diligence, should be answered “Yes” – preparers *should* do due diligence, but they *don’t* do Form 8867.
 - *This is the only question that is answered affirmatively with regard to due diligence, because if the question is answered “No”, TaxSlayer disallows EIC*
 - The answer to the fourth question, about additional questions, should be “No”
 - The fifth question, also about due diligence, should be answered “No”
 - In the *Records* section, answer “No” to the question about whether any records were kept (the Tax-Aide program keeps *no* client records)
 - In the *Documents* section(s), select “Did not rely on any documents.”
- After all the questions on the **EIC Checklist** page have been answered, the next page is the **Form 8867 – EIC Checklist** menu.
 - The menu shows TaxSlayer’s determination of whether the taxpayer is eligible for EIC.

E-File Section

- o If there is a “Reasons for no Earned Income Credit (EIC)” section at the top, then there will be one or more buttons labeled “Disqualifies”, to show why.
 - The phrase “EIC Checklist was not Answered Correctly” is misleading – it implies an error by the preparer. What it usually means is “Disqualified Based on EIC Checklist”.
- o If you have questions about TaxSlayer’s determination of the EIC credit, click on the button for the area where you want to see what was entered into TaxSlayer.
 - The exception is a “Disqualifies” button at the top, in the “Reasons for no Earned Income Credit (EIC)” section. That is not related to the EIC Checklist, and clicking on it will just send you to the top menu of the Federal Section
- The final EIC-related page is the **Miscellaneous Statement** page. Leave this blank; just click “Continue”
- If the taxpayer qualifies to get EIC (or a higher amount of EIC) because of a child who is 17 or 18 years old (born in 1998 or 1999), remind the taxpayer that this credit will be eliminated (or reduced) when the child turns age 19, unless the child is a full-time student, or disabled. Similarly, if a full-time student who is a dependent is 21 or older (born in 1996 or earlier) is involved in getting this credit, remind the taxpayer that the student won’t count towards this type of credit once the student becomes 24.

E-File Page

- The next page [in some cases, the first you’ll see] is the **E-file** page. On that page are two modifiable fields
 - o The “Send State Only” box – which would result in e-filing of *only* the CA return – can only be checked with LC approval.
 - o The “Federal Return Type” field combines two different types of information: type of filing, and how a refund from or payment to the IRS will be handled. Paper returns are clearly explained; e-filed returns less so. The following are all choices that **include e-filing**:
 - “Electronic Mailed” - the refund from the IRS will be mailed to the taxpayer
 - “Direct Deposit” - the refund from IRS will go directly into the taxpayer’s bank account.
 - “Mail Payment” – the taxpayer will mail a check to the IRS, or pay otherwise (for example, by credit card), rather than by direct debit from a bank account specified in the return. (See [pages K-16 and K-17 of Pub 4012](#) for various options that the taxpayer has.)
 - “Direct Debit” – the taxpayer will pay the balance due to the IRS by direct debit from their bank account
- What is selected in the “Federal Return Type” determines how TaxSlayer builds out the page.
 - o For taxpayer options in paying an amount due, see Balance Due, on page [88](#), below
- In the “[Tax Preparation and E-File Information](#)” section, just click “Next”.
- In the “[State Returns](#)” section, select the Return Type – again, this is a mix of how the return will be filed (electronic or mailed) and whether the payment or refund will be made by direct deposit or by check
 - o “Electronic State Balance Due” (or similar; the wording may have changed slightly) means the state return will be e-filed and the taxpayer will pay the balance due *separately* (normally this is done by check)
 - o **CA Note:** If the taxpayer has a balance due, and is going to pay this via a direct debit from a bank account, the printed return will include a CA Form 8455, “California e-file Payment Record for Individuals”. When printed, check this form to make sure that it has a dollar amount on it; if not, enter that manually.
- In the “[Taxpayer Bank Account Information](#)” section, the bank account information that is entered is normally taken from a **check** that the taxpayer has with them. (TaxSlayer won’t show this section if the federal and state return types are set such that no payment or refund comes from or goes to a bank account.)
 - o The taxpayer does not have to void the check; in fact, it does not even have to be removed from the taxpayer’s checkbook.
 - o Taxpayers who do not use checks should be encouraged to go to their bank to obtain a letter of account verification; the same information, from a website or mobile app, visible on the taxpayer’s mobile phone, is also acceptable
 - o It is unacceptable to have the taxpayer provide direct deposit information by calling a site or counselor, because if an error is later discovered, it is impossible to prove who was at fault
 - o If the taxpayer wants to use the account information from the prior year’s return, then it is acceptable to put the non-verified account information on the return, **if the preparer does the following**
 - Advises the taxpayer that without verification the account information put on the return is at their own risk, and if the funds do not arrive in their account that there will be no way to trace or replace the funds and
 - Documents, in a note (page [8](#)), that the taxpayer did not have a check or letter or account verification

- Has the taxpayer write their initials next to the account information on the printed return. The initials will serve as indication that they have been warned that the account information has not been verified
- Specifics:
 - Entering a bank name is not required.
 - Multiple bank accounts **can** be entered in TaxSlayer **if** the site LC sets up returns so that they can include Form 8888, “Allocation of Refund (Including Savings Bond Purchases)”
 - If multiple accounts are allowed, the **state** refund or payment (if done electronically) will use first account listed. (A state refund or payment can never use multiple accounts.)
 - If multiple bank accounts are entered, TaxSlayer creates a Form 8888, which is included in the printed tax return.
 - For each bank account, enter the 9-digit Routing/Transit number (which is always on the left side of the MICR encoded line on checks) and the account number.
 - Never use a deposit slip – the routing number for deposit slips is often different than the routing number for checks
 - Omit spaces, dashes, and special symbols
 - DO NOT enter the check (sequence) number, which will match the check number on the upper right corner of the check
 - The check number may appear **before** the account number, though it normally is after.

The diagram shows a check with the following details:

- Payor: John Doe, Mary Doe, 1234 Main Street, Anytown, CA 99999
- Amount: \$1234
- Bank: ANYTOWN BANK, Anytown, CA 99999
- Routing number: 250250025
- Account number: 202020
- Check number: 1234
- Year: 19
- Check number on upper right: 1234
- MICR line: I 250250025 I 202020 1234

Annotations and instructions:

- Do not include the check number (1234) in the account number field.
- Routing number: 250250025
- Account number: 202020

- **If** the site LC has enabled Form 8888, then the taxpayer can designate a portion of their federal refund to buy up to \$5,000 in U.S. Series I Savings Bonds
 - Each amount requested must be a multiple of \$50
 - The bonds can be issued in the name of both taxpayers, if this is a joint return, or in the name of just one spouse, or for others, and a co-owner or beneficiary can be designated
 - On the federal return, this information appears on Form 8888
 - Taxpayers will receive the bonds by mail
 - Taxpayers can contact Treasury Retail Securities at 1-800-245-2804 to check the status of their bonds
- In the “Third Party Designee Info” section, normally just click “Next”. [The taxpayer is designating someone who can speak to the IRS on their behalf]
 - This is a very limited authorization, not a power of attorney, and the taxpayer must still sign the return or Form 8879 themselves
 - A Tax-Aide counselor may **never** be a third party designee
 - If we have an elderly taxpayer who is accompanied by their adult child and the taxpayer seems to depend on the child for understanding interview questions, or if there are other issues, then the taxpayer might be asked if they would like to designate someone for this limited purpose
 - If they agree, they will have to provide a name, phone number, and PIN, which authorizes the named third party (for example, their adult child) to discuss the return with the IRS
- Finally, the “Questions” section will include standard questions specified by the Tax-Aide program. These questions may have been answered at the bottom of page 3 of the Intake/Interview sheet (see questions 5, 6, and 7); if not, ask the taxpayer. (Keep in mind that the taxpayer is **not** required to provide the answers to these questions; answering is optional.)
 - During the 2017 tax season, Tax-Aide is distributing a supplemental question sheet. If the client answers the questions on that sheet, the answers are to be entered here.
- Click “Save” when done with all sections.

Submission

- The final step is the completing the e-File section is the **Submission** page.
- The page has an option to print the return, in one or two copies.
 - As **preparer**, you normally would not print a copy of the return at this point.
- Tax-Aide does not use the online signing process of TaxSlayer, where the taxpayer clicks “Sign” to sign the return.
- Do **not** click “Mark Complete” – that is for the reviewer to do
- Final steps:
 - Click to **mark as “Review Pending”**. That will change the status column, on the **Office Client List** page, to the same: “Review Pending”
 - Click on “Set Return Tags”, at the very bottom of the page, to determine if any return tags need to be selected.
 - In particular, “Signature Needed” may need to be clicked if this is a MFJ return with only one taxpayer present.
 - Click “Save and Exit Return”

FINAL STEPS IN TAX RETURN PREPARATION

EXITING A RETURN BEFORE COMPLETION

- If you need to stop working on a return before completing it – for example, the taxpayer needs to come back with a missing tax document:
 - Create a note (page **8**) about the situation; if it involves needed (missing) documents, indicate which documents are needed
 - After exiting the return, set a **tag** (see page **8**, above) to indicate that the taxpayer needs to return with more information, or that the taxpayer left, or something else, if appropriate. (The exact tag to be used depends on the choices defined by your district or local site.)
 - Add an explanation of the status of this return to your Activity Reporting log

PRE-QUALITY REVIEW

Before the quality review takes place, the preparer may want to do a quick review of the federal and state returns

- Federal return:
 - Are amounts consistent with prior year’s return, and, if not, is that expected?
 - If the prior year’s return is not available, compare the dollar amounts on various 1040 lines to the dollar amounts on source documents such as Form W-2s.
 - Did the taxpayer get all the expected credits?
- Review the CA Form 540 return, especially pages 1 and 2, and CA Schedule CA [these are visible only by creating a PDF]
 - The focus should be primarily on whether any/all expected CA differences show up in the CA return
 - A secondary thing to check is CA-specific credits, such as the Renter credit and EITC – see Follow the procedure in the section Deductions Treated Differently by CA, on page **84**, above
 - CA-Only Credits, on page **85**, above.

QUALITY REVIEW

- The quality review process is described on [page K-26 of Pub 4012](#)
- Every return prepared at a Tax-Aide site **must** be quality reviewed by another counselor.
 - If the return requires additional certification (for 2015 and 2016 returns, the only additional certification is HSA, other than at military sites), then **both** the preparer and reviewer must be so certified
 - The taxpayer should be present to observe the quality review and answer any questions
 - Part VIII, “IRS Certified Volunteer Quality Review Section”, on page 4 of the Intake/Interview sheet, lists actions to be taken by the reviewer
 - Quality review of the information entered into TaxSlayer is best done on screen rather than from printouts
- In TaxSlayer, which has a system-enforced process for preparation, review, and e-filing, quality review starts from a separate section on the home page called “Review Returns”

- o If you don't see that section, then the security profile for your login doesn't include the ability to *formally* review returns, though you can go through a return in the same way that a preparer does.
- Sites have at least two options as to how to follow the formal review process in TaxSlayer; here are some factors to consider for each:
 - o *The taxpayer doesn't move; the preparer logs off TaxSlayer; the reviewer logs onto TaxSlayer at the computer where the taxpayer is being helped.*
 - This takes extra time – and when the reviewer is done, the reviewer needs to log off TaxSlayer and the preparer to log on again
 - o *The taxpayer moves to the computer where the reviewer is working.*
 - This is problematical for taxpayers who have mobility issues, and requires that all tax documents be moved from place (desk or table) to another.
 - This approach means the *reviewer* is the one who does the wrap-up with the client, not the preparer, who spent more time in preparing the review.
- The reviewer must examine the Intake/Interview sheet and supporting documents supplied by the taxpayer and compare them with the information on the return, to check for the accuracy and completeness of what was entered. That may be done using one or a combination of the following three approaches, depending on the nature of the return:
 - o Review all TaxSlayer pages where the preparer entered information
 - For Basic Information, this is three pages
 - For the Federal section, this can be done very quickly if all pages used in the section are listed in a Quick File (see page 18, above)
 - For the State section, the only way to get to the input pages is through the menu system (look for buttons labeled “Edit”)
 - For the Health Insurance section, go through the TaxSlayer sequence of pages
 - o From the **Calculation Summary** page, compare information on various lines of the Form 1040 to the documents provided by the taxpayer, checking individual TaxSlayer pages as needed
 - This approach can't cover information entered into the State section; one of the other two approaches must be used for State section data entries, if any.
 - o Review the PDF of the “Master Print” for the tax return, comparing what is shown to documents provided by the taxpayer.
 - That PDF includes forms like the W-2 as well as copies of federal schedules
 - A “Master Print” set is available only on the final page of e-File section, “Submission”.
- If any needed changes to the tax return are identified, discuss these with the preparer unless they are very minor
 - If you make minor changes, you *still* need to let the preparer know, so that they are less likely to make the same mistake in the future
- The final part of the quality review is to go through the pages in the E-File Section
 - o Pay particular attention to the information on the Warnings page, if one appears; it will include notes created by the preparer.
 - Make sure that the notes are complete. For example, if the return is to be paper-filed, or if a second signature (for a MFJ return) is needed, that should be in a note.
- On the final page of the e-File section, the **Submissions** page:
 - o In the “Tax Preparation Charges” section, click the “Mark Complete” box
 - **Note:** After a return has been marked as complete, it cannot be unmarked as complete.
 - o In the “Review/Retransmit Status” section, click “Approved”. This will:
 - Change the status of the return to “Review Approved”, on the Office Client List page
 - Automatically send a message to the preparer, saying that the return was approved by the person doing the quality review.
- Determine if the return is ready to be e-filed, or if that should wait for a second signature (for MFJ returns)
 - o If there is no need to wait for a second signature, click the “Mark as Ready to e-file” check box
 - o Otherwise, click on “Set Return Tags” (small blue print, at the bottom of the page), to make sure that a return tag has been selected that says (exact wording may vary) “Awaiting signature”
- Final steps:
 - o Print the return for the taxpayer (alternatively, this could be done by the preparer)
 - For detailed information about printing a return, see Printing Returns, below, page 96
 - If the return is going to be paper-filed, see also Printing, on page 98, below

Final Steps in Tax Return Preparation

- o Click “Save and Exit the Return”
- o Enter reviewer initials near the bottom of Part VIII (page 4) of the Intake/Interview sheet
- o Enter reviewer initials on the preparer’s Activity Log
- o **Note:** Local site policy may require the reviewer to “mark” the return in some way, electronically, to show who did the preparation and the review. (The **Client Status** page [Office Client List > Tools] does show who created a return.) This can be done in several ways; follow local site policy:
 - Put the information in a note (page 8)
 - If the site administrator has created a return tag for each person [for example – “PatS-reviewer”], select that return tag
 - Answer a custom question in the e-File section [the site administrator must create the list of acceptable answers, which would be a list of all counselors at the site who might do a review]

REVIEW RETURNS WITH TAXPAYER

- Per the [Tax-Aide Policy and Procedures Manual](#), either the preparer or the reviewer must review the return with the taxpayer to the extent needed or requested to ensure taxpayer understanding.
 - o Part of the review is to point out to the taxpayer that the accuracy and completeness of the return is the taxpayer’s responsibility, as stated on the Forms 8879 (federal and state), and on the Tax Record Envelope.
- This review can be done either from the computer screen OR by using a printed return
 - o Decide which works best for you and the taxpayer
 - o For more complex returns, such as those with many documents, it may be easier to work from a printed copy – see “Printing Returns”, immediately below.
- If the prior year’s return is available, it can be very helpful to review the differences with the taxpayer

PRINTING RETURNS

- When you start the print process in TaxSlayer, a PDF file will be created and displayed in a separate window or area of the screen.
- The PDF can be scrolled through to see what will print. The PDF, on the screen, can also be used in reviewing the return with the taxpayer.
- There are three places where a PDF can be created:
 - o Within the return, on the Submission page of the e-File section
 - *This is the best place to print a return, because of the choice of print sets*
 - o Within the return, from the “Preview Return” link in the upper right of the screen
 - o In the Office Client List page, by clicking on the printer icon for a return (this is to the left of the “Tools” drop-down menu)
- In the resulting print dialog, either print the entire file (normal), or select specific pages to be printed (unusual)
 - o If you work at more than one Tax-Aide site, or are using a personal computer, **make sure that the printer listed in the print dialog is the correct one**
 - If, after you expect printing to begin, it does not, one of the most common causes is having specified the wrong printer [if this happens repeatedly, *change the default printer*; if necessary, get another counselor to assist]
 - Another reason why something might not print is a printer problem: out of paper, out of ink, or a paper jam, for example
- If you are printing a return that will be paper-filed, see the additional information in the Printing Returns section, on page 96, below.
- **Note:** It is a violation of Tax-Aide policy to save a PDF file created in the printing process, or to give that file to a taxpayer in electronic form

Printing Individual Forms

- TaxSlayer does not have the ability to generate a PDF for only one specific form that is part of a return. If it is necessary to print only a completed form, create a PDF for the entire return, and then specify, in the printer dialog, exactly which page(s) you want printed
 - o If for some reason a specific form is part of the return, but is not included in the standard print set, generate a “Master Print” PDF (from the last page, Submission, of the e-File section), and see if the needed page is part of that PDF.

Printing Blank Forms

- A blank tax form may be requested by a taxpayer who is coming to the site only for advice or assistance with a return that he or she is manually preparing.
- TaxSlayer doesn't have an internal process to print blank forms; instead, go to the Internet:
 - Federal forms are at irs.gov/forms-pubs
 - You can use the search box on that page, but it's better to click on "List of Current Forms & Pubs", and use the search box on *that* page.
 - CA forms are at ftb.ca.gov/forms/search/index.aspx

E-FILING: SIGNATURES

- The taxpayer's signature and (if married) the spouse's signature are required for all tax returns.

Married Filing Jointly

- If a return is MFJ and only one taxpayer is present, make sure that return is marked to indicate that a second signature is still needed, and that the return should be held, not e-filed, until that second signature is received.
 - Add a Tags which says that a signature is needed to complete the return
 - Mark your Activity Log to show that a signature is required before the return is e-filed
- Print the return; then:
 - Have the taxpayer sign the Form 8879, IRS *e-file* Signature Authorization, and the CA Form 8879, California e-file Signature Authorization for Individuals
 - Make it clear to the taxpayer that the return will not be e-filed until a Tax-Aide volunteer at the site has witnessed the signatures of both taxpayers on both forms, but that we do not keep these forms
 - Per paragraph 4.3.3 of the 2016-2017 *Policy and Procedures Manual of Tax-Aide*, "For joint returns Local Coordinator discretion is needed if only one taxpayer is present at the time the return is prepared, but both must still sign the IRS Form 8879. State Coordinators may set a state-wide policy regarding joint return signatures."
 - State, district, or local (site) policy may require one of the following:
 - Both taxpayers to come to the site, together, with picture identification and the 8879s, signed by both.
 - The taxpayer not present at the preparation of the return comes to the site, with picture identification and the 8879s, signed by both (or signs the 8879s at the site)
 - The taxpayer who was present at the preparation of the return to come back to the site, with picture identification of their spouse, and the 8879s, signed by both.
 - Per paragraph 6.6 of the 2016-2017 *Policy and Procedures Manual of Tax-Aide*, this alternative is not allowed for **new** taxpayers – those who didn't use the local site for the preparation of last year's tax return.
 - Instruct the taxpayer to follow the site policy with regard to the signature of their spouse on the federal and CA 8879 forms, so the return can be filed electronically
- **Note:** A married taxpayer can sign for a spouse when injury or disease prevents the spouse from being able to sign. LC approval is required.

Deceased Person - Signature Requirements

- A surviving spouse will sign the return and add "as surviving spouse" after their name
- A executor or administrator will sign their own name with their title as per
 - Copy of the will appointing the executor, if there is one
 - Other authorizing document, such as a court appointment
 - If there is no document, the term "executor" includes anyone in actual or constructive possession of any property of the decedent – see [Pub 559, Survivors, Executors, and Administrators](#)
 - Form 1310 must be included in the refund if the return is filed by other than a surviving spouse and there is a refund due.

Power of Attorney (POA)

- If an agent is signing the return for a taxpayer, a Power of Attorney (POA) is required.
 - **Note:** A Power of Attorney expires when a person dies
- Confirm the identity of the agent (photo ID) and add a note in TaxSlayer (page 8) stating that signature was done via POA

Final Steps in Tax Return Preparation

- o The note should include the name and ID information, such as driver license number, of the agent, the date of expiration of the POA, contact information for the agent, and any other relevant information.

PAPER RETURNS

Starting

- When a paper return is required because the return cannot be e-filed, the federal and state return types must be set to a paper option, in the Return Type section of the E-File Page
 - o The selected return type should include the word “Paper”; otherwise, that return type probably is for an e-filed return
- The preparer’s Activity Log should be annotated to indicate a paper return, and the reason why
- The reason why the return is being paper-filed should have already been entered into a note; if one doesn’t exist, create one.
- On paper-filed returns, many non-dollar fields are not required, because paper tax forms will be attached to the return.
 - o However, unless you are an expert on paper-filed returns, it may be easier just to complete the forms in TaxSlayer as if the return will be e-filed.
- In cases where the IRS rejected a return because the taxpayer’s primary/secondary/dependent SSN was used on another return that has already been filed, [Form 14039, Identity Theft Affidavit](#), must be included with the paper return. (This form is available online, not in TaxSlayer.)
 - o More information can be found on [page P-4 of Pub 4012](#), “Identity Theft Job Aid for Volunteers”.
 - o **CA Note:** For the CA return, a [CA Form 3552, Identity Theft Affidavit](#), should be prepared, to be filed with the paper CA return.

Printing

- General instructions for printing are above, on page [96](#)
- Print two copies of the PDF, one to be mailed, one for the taxpayer
 - o Alternatively, print one full copy and then print selected pages from the PDF.
- **CA Note:** A paper return for CA requires a copy of the federal return, including schedules, to be attached **if** the federal return includes any Form 1040 schedule other than A or B.
 - o Print the required pages from the federal part of the PDF if TaxSlayer does not include them in the standard set of pages in the PDF which are for the state return.

Signing and Collating

- The **taxpayer(s)** must sign the second page of the IRS 1040 AND the last page of CA Form 540 for the returns being mailed
 - o If the return involves a deceased taxpayer, see [page K-23 of Pub 4012](#), “Return Signature”.
- Federal – collate according to Attachment Sequence No., at the top right of each supporting form for the Form 1040
 - o This is normally the sequence that forms will be printed; you normally don’t need to rearrange the pages
- CA – collate according to numerical / alpha sequence, followed by the federal return, if required (see prior section)
- Attach to the first page of 1040 and 540 returns:
 - o Form W-2s (Fed / CA, respectively)
 - o Form W-2Gs, if tax was withheld (Fed / CA, respectively)
 - o Form 1099-Rs, if tax was withheld (Fed / CA, respectively)
 - o Any other forms showing tax withheld
- Note: CA Form 3519, the payment voucher, is **not** used with paper returns.

Mailing

- Instruct the taxpayer to mail the returns with any payment vouchers and checks, but **separately** from any payments of quarterly estimated tax
- Mailing addresses are shown on page iv, **above** (exception: if there is a W-7, see the next section)

Paper Returns that Include a Form W-7

- The taxpayer must complete and sign the W-7(s) that are printed with the paper return, and submit them together with required documents

- In TaxSlayer, only the very first page for W-7 information (asking the reason for filing the W-7) **must** be completed to avoid an error message. While it's possible that the taxpayer had on hand all information needed to complete the W-7, and this was entered into TaxSlayer, it's also quite possible that the taxpayer did not.
 - If one or more fields on the form are blank because a question(s) was not answered in TaxSlayer, remind the taxpayer that the Form W-7 is not complete. Tell the taxpayer that they must fill in these fields, manually, before submitting the Form W-7 with the tax return.
- Cross-out, on each 1040 page and supporting schedule and documents, the temporary SSN/ITIN entered by TaxSlayer (typically something like 000-00-0001)
- If the taxpayer has a family pack that includes multiple Forms W-7 in the taxpayer's return, or multiple returns with one Form W-7, these forms should be staggered and stapled together to show the entire package as a family pack. This will prevent separation of the forms/returns that could increase the processing time
- The taxpayer must submit the paper return together with the W-7 and required documentation, either by mail or in person:
 - If mailing, to the following address, and not to any other IRS office:
IRS, ITIN Operation
PO Box 149342
Austin, TX 78714-9342
 - If in person, to an IRS Acceptance Center
 - Taxpayer Assistance Center locations where in-person document review is provided are listed at irs.gov/uac/tac-locations-where-in-person-document-verification-is-provided
- For the state return, which also must be paper-filed, the taxpayer has two choices:
 - If the taxpayer does not have tax due to the state, they can hold the state return until they receive their official ITIN cards, which may take 6-8 weeks.
 - Once they have their ITIN cards, they can record the ITINs on the state tax return and mail it in.
 - Alternatively, "Applied For" can be written in the SSN field, and the state tax returns mailed immediately
 - The taxpayer should contact the FTB (1-800-852-5711) once the ITIN is received, in order to make sure that the tax return is properly processed

SUBMITTING E-FILES

- At most sites, only the ERO submits e-files.
- Some sites want preparers to submit e-files after the quality review has been complete and the taxpayer has signed (authorizing e-filing) and left the site. If that is the process at your site:
 - Review all Notes to make sure there that there is no problem with e-filing (for example, a signature is needed on Form 8879)
 - Make sure that your Activity Reporting log also indicates that the return will be electronically filed, and that is ready to be filed
 - On the Submission page of the e-File section, click the green button at the top of the page that is labeled "Save and Transmit Return to IRS"
 - If you don't see this button, then the security profile for your logon (set up by your site's LC) does not include the authority to transmit e-files.
 - In your Activity Reporting log, record that the return was sent to the IRS.

UNABLE TO PAY/LATE FILING

- Returns prepared by Tax-Aide in the 2017 tax season will always be filed by April 18, 2017, except for returns prepared by authorized sites that are open year-round
- Prepare regular vouchers for full payment (the taxpayer can always change the dollar amounts)
 - Inform the taxpayer of the payment options **below** if they cannot pay in full by April 18
- Because CA taxes due are usually much smaller than federal taxes due, the taxpayer may want to pay CA in full, where possible, and owe more money to the IRS; that way, the taxpayer is dealing with only one creditor, not two.

UNABLE TO PAY - FEDERAL

- For federal taxes, more information can be found in [Pub 594, The IRS Collection Process](#)

Unable to Pay/Late Filing

- [Pages K-16 and K-17 of Pub 4012](#) describe the various options that the taxpayer has.

Pay Within Four Months

- If payment can be made **within four months** (that is, by August 18), the first step is for the taxpayer to pay as much as possible by April 18.
- The second step is for the taxpayer to contact the IRS at 800-829-1040 [best to call *after* the tax-filing deadline in April] or go online at irs.gov/Individuals/Online-Payment-Agreement-Application and request a **Short Term agreement** of 30, 60, 90, or 120 days
 - A short term agreement does not have fees; an installment agreement (see below), which is longer-term, *does* have fees.
 - A short-term agreement will stop the placement of the account into collection status
- Discuss with the taxpayer how payments will be made
 - Print as many payment voucher forms (page 2 of [Form 1040-V](#)) as the taxpayer wants, or
 - If the taxpayer prefers to pay directly, by credit card or from their bank account, direct the taxpayer to irs.gov/Payments
- The taxpayer will owe interest at the federal rate, which changes quarterly. (The rate was 4 percent annually as of [the calendar quarter ending December 31, 2016](#).)

Pay by Credit Card

- At irs.gov/Payments, with the option “Pay with Your Debit or Credit Card”, the taxpayer can pay some or all of their balance due using a credit card
 - Processing fees are charged (and paid to third parties). For credit cards, the fee is approximately 2 percent of the payment; the exact fee varies by processing company
 - Taxpayers can pay less than the full amount by credit card, for example as part of a short term agreement (see above) or an installment agreement (see below)

Pay on an Installment Agreement

- An installment agreement should be considered only if the taxpayer cannot pay their balance due within four months
 - The taxpayer can choose the monthly due date and payment amount, and may arrange to have the funds withdrawn directly from a bank account
 - Taxpayers will owe interest and a late-payment penalty of 0.25% of the balance due each month
- There is a one-time set-up fee. As of January 1, 2017, that fee is:
 - \$31 if the agreement is done online [either with an e-filed tax return, or by going to irs.gov], with payments to be made by direct debit from a bank account
 - \$149 if the agreement is done online, with payments to be made by check
 - \$225 if the agreement is done by phone or in person, with payments to be made by check
 - \$43, regardless of how the agreement is made or how payments will be made, by filing [Form 13844](#) (not available on TaxSlayer), which is for low-income households, defined as those below 250% of the federal poverty line (see [page ACA-12 of Pub 4012](#) for poverty line amounts for various-sized households)
- The IRS adds the set-up fee amount to the amount owed from the tax return, in calculating the total balance due; the fee is not collected when Form 9465 is filed
- To request an installment agreement, go to the **Form 9465 - Installment Agreement Request** page [Federal Section > Miscellaneous Forms > Installment Agreement]
 - If information for Form 9465 is entered into TaxSlayer, the form is included in the taxpayer’s e-filed return
- While on an installment agreement, the taxpayer may amend the agreement, including adding additional years, if necessary, on irs.gov

UNABLE TO PAY - CALIFORNIA

- The range of options for taxpayer who owe money is shown at ftb.ca.gov; it is similar to the options offered by the federal government. The fee to pay by credit card is 2.3 percent.
- If the taxpayer wants to make installment payments, that can be done for a \$34 filing fee, in any of three ways:
 - Online, at ftb.ca.gov/online/eia/index.asp
 - By calling 1-800-689-4776
 - By mailing [FTB Form 3567](#), separately from the CA tax return
 - The form is not available in TaxSlayer. If needed, go to the ftb.ca.gov website.

LATE FILING

Penalties

- If no tax is due, or if the taxpayer is due a refund, there is no penalty for failure to file a tax return.
- The penalties if taxes are owed are:
 - A late filing penalty of 5% per month of the unpaid tax, up to a maximum penalty of 25% of the amount due, for both the federal and CA returns
 - If the return is filed more than 60 days late, the minimum penalty is \$135 or the full amount of the tax due, whichever is less
 - A taxpayer can submit [Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship](#) (not available on TaxSlayer). If the application is approved, the IRS will waive the late penalty charges for up to six months.
 - Interest (“failure-to-pay penalty”) on the amount past due, which can vary by quarter:
 - At the end of 2016, it was 4% per year for federal returns and 3% for CA returns, compounded daily
 - If the 5% per month late filing penalty is being assessed in any month, there is no federal failure-to-pay penalty for that month

Deadlines for Claiming Refunds

- For federal taxes, the deadline for claiming refunds is three years from the date the return was due. For example, the last day for claiming a refund on a 2013 return (due April 15, 2014) will be April 15, 2017.
- For CA taxes, the deadline for claiming refunds is four years from the due date of the return. For example, the last day for claiming a refund on a 2012 return (due April 15, 2013) will be April 15, 2017.
 - **Note:** Only returns for three prior years are in-scope, or available in TaxSlayer, so Tax-Aide volunteers cannot prepare a CA return for 2012.

Prolonged Failure to File and Pay Taxes

- 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 where the taxes were due.
- Repeated failures to file could result in criminal charges, which carry a maximum fine of \$25,000 and one year in prison for each count if convicted

OTHER RETURNS

PRIOR YEAR RETURNS

Counselors who prepare or quality review a prior year return must have been certified for the year of that return.

Only returns for the last three prior years may be prepared in the Tax-Aide program. Clients needing older returns should be referred to a paid preparer (but note that they must file **ONLY if they will have balance due, or in response to an IRS request). So, for example, if it is February 2017, then returns as far back as tax year 2013 can be prepared by Tax-Aide volunteers.**

- **Note:** IRS offices no longer assist taxpayers with the preparation of prior year returns
- Taxpayers who want to file prior year returns often are missing tax forms, such as W-2s. If that is the case, the taxpayer should request a Wage and Income Transcript from the IRS. That can be done online or via mail (see www.irs.gov/individuals/get-transcript) or in-person at an IRS Tax Assistance Center. (Call 844-545-5640 to make an appointment.)
 - IRS transcripts don’t include CA-specific information, such as state tax withholding. If there is any such information, the taxpayer can obtain it by establishing an online MyFTB account (ftb.ca.gov/online/myacct/), or by calling FTB’s general information line (800-852-5711); the FTB agent will look up the information and send the taxpayer a copy.
 - Complete W-2s *are* available from the Social Security Administration, but at a fee of \$86 for each year if the taxpayer needs them for a reason unrelated to Social Security matters.
- As of December 2015, taxpayers with newly issued SSNs or ITINs cannot claim certain credits if/when they file a prior year return, or an amended return for a prior year. See [page M-3 of Pub 4012](#), “Prior Year Returns”, for details.

Other Returns

- If multiple prior year returns are needed (for example, 2013, 2014, and 2015), do the *oldest* year first, so that data Carry Forward can be used, sequentially, for the other years.
- Federal forms and instructions for prior years can be viewed and downloaded from irs.gov/Forms-&-Pubs
- To start a prior year return, from the Main Menu select the year (for example, “Tax Year 2015 Returns”), then, in the upper right of the screen, click the green “Create Prior Year” button.
 - The two prior year returns (2015 and 2014) **can** be e-filed.
 - The IRS will not do direct deposit refunds for prior year returns. If direct deposit information is entered on the tax return, the IRS will still mail a paper check to the taxpayer.
- **CA Note:** California has a four-year statute of limitations, rather than the federal limit of three years, but going back four years is *out-of-scope* for our program. If a taxpayer believes they could get a significant refund from the FTB by filing such a return, the taxpayer should consider using a paid tax preparer or tax-preparation software.

AMENDED RETURNS

Counselors who prepare or quality review an amended return must have been certified for the year of that return.

Only returns for the current tax year (2016) and the three prior years may be amended by Tax-Aide counselors. Clients needing to amend older returns should be referred to a paid preparer.

- *As of 2016*, the IRS has requested that if a taxpayer discovers **\$200 or less of missed income**, after filing, *that no amended return be prepared*. Instead, the taxpayer should wait for a letter from the IRS. (As noted below, the taxpayer may have the option of simply accepting the IRS calculation of how much additional tax is owed, as stated on an adjustment letter from the IRS, and mailing a check for that amount.)
- An adjustment letter (CP2000) is not automatically a reason to amend a return
 - If there are no changes other than those proposed by the IRS, the taxpayer only needs to tell the IRS that they accept the proposed changes; no 1040-X is needed.
 - However, even if the federal adjustment proposed is correct and is acceptable to the taxpayer, a CA amended return may be necessary to so that CA information agrees with the IRS-adjusted 1040 amounts
- **Do not file an amended return until the IRS has had time to process the original return.**
 - If the taxpayer has filed a return for which a refund is due, but has not yet gotten that refund, an amended return should not be prepared until that refund is received.
 - If no refund is due, and the return was e-filed, the amended return can be prepared at any time, but *should not be mailed* until at least four weeks after the date that the original return was e-filed
- As of December 2015, taxpayers with newly issued SSNs or ITINs cannot retroactively claim certain credits if/when they file an amended return, or a return for a prior year. See [page M-3 of Pub 4012](#), “Prior Year Returns”, for details.
- Amended returns CANNOT be e-filed
- When amending a federal return, assume that CA return also needs to be amended
 - After a CA 540-X has been completed, you can check to see if anything changed. If not, then the amended CA return doesn’t need to be printed or mailed.
- **If the federal and state returns were e-filed at about the same time, and the federal return rejected while the state return was accepted, a state amended return is required, along with extra steps**
 - **Note:** TaxSlayer has stated that *in production*, they will treat CA as a linked state: the CA efile will be held until the federal efile has been accepted. If they do this, the steps below will not be necessary.
 - Make the needed changes to the return, in TaxSlayer, and e-file the federal return.
 - Create a note (page 8) in TaxSlayer saying exactly what changes are needed to fix the return
 - If the change involves contacting the taxpayer to get information, tell the taxpayer that they will need to come back to the Tax-Aide site to sign the state amended return, and that this will need to be mailed
 - Also, if the amended state return impacts the amount *owed* by the taxpayer to the state, discuss whether the taxpayer has already paid the state, if payment was to be made by anything other than direct debit
 - Once the federal return is accepted:
 - Change the return so that it is back to the way it was when originally e-filed
 - Create a state amended return (see below)

- Modify the Tags for the return to indicate that the taxpayer must come back to the site to get the state amended return

Start with the Original Return

- If the original return is on TaxSlayer, including a prior year return, open that return
 - You will be able to find a return, to open and amend it, only if it was prepared in TaxSlayer *at your site*.
- If you do not have access to the original return, then a new return must be created to match the original return
 - Make sure that you start the new return in the correct year, which *usually will not be the current year*.
 - Enter information from the original return on appropriate supporting TaxSlayer pages using information from the original return
 - If contact information (address, phone number) in the Basic Information section has changed from what it was on the original return, enter the *current* information rather than what was on the original return
 - Confirm that all information has been entered by comparing Form 1040 and Form 540, in the PDF for the tax return, against the original tax returns. **All dollar amounts must match.**
- Confirm that information **all amounts** in TaxSlayer, on the Form 1040 and CA Form 540, in the PDF for the tax return, match the amounts on the original federal return (Form 1040) and California return (Form 540)
- Print a copy of the original returns (federal and state)

Make Changes to the Original Return

- Make all necessary changes to the return, based on the new information from the taxpayer.

Amend the Federal and State Returns

- Click on the “201X Amended Return” link on the left navigation bar, which opens the menu page **Amended Tax Return - Form 1040X**.
- TaxSlayer has information on the process:
 - From the menu page, select “How To Amend Your Return”
 - A more detailed description is in the TaxSlayer document “Working with Amended Returns”, issued in December 2012, and available at the OneSupport Help Center in the [Volunteer Portal](http://volunteers.aarp.org) (volunteers.aarp.org) [in the “Tax Training” section; go to “TaxSlayer”]
- It’s possible that a change in the federal tax return won’t affect the balance due or the refund amount on the state return, particularly if that amount was originally zero. If that amount didn’t change, it isn’t necessary to prepare or file a state amended return.

Print and Assemble the Amended Return(s)

- In addition to Forms 1040-X and 540-X, any form or schedule that has been changed from the return as originally filed should be printed and attached to the amended return
 - For example, if the return is amended because the taxpayer is reporting additional expenses for their business:
 - Federal: print, to be mailed, the 1040-X, Schedule C, and Schedule SE; if credits such as EIC were affected, then related forms should also be printed
 - CA: 540, 540-X, supporting pages on the CA return that have changed, and federal pages that changed
 - Attach the Form 1040 (original or revised) to both the federal and CA returns **only if** a change occurred **only** on that form – for example, if alimony paid, on line 11, was changed
- For information on generating a PDF to be printed, see Printing Returns, on page 96, above, and additional information regarding paper returns, in the Printing section, on page 98, above.
- Write “as amended” at the bottom of each page that is being re-filed as part of the amended return
 - Attach all supporting forms and schedules for items changed (make sure all information on a revised schedule, including payer names, is shown)
- **Federal:** The taxpayer must **sign** and mail one copy of the 1040-X with all revised supporting forms and schedules
 - Attach (staple) to the front of the return any W-2 or W-2c that supports the changes made on the return; also attach any Form W-2G or 1099-R involved with the change, **if** tax was withheld on such a form.
 - Assemble any needed schedules and forms behind Form 1040X in order of the “Attachment Sequence No.” shown in the upper-right corner of the schedule or form (again, these are schedules and forms *that support the change*, not all schedules and forms in the original return)

Request for Extension of Time to File

- o As mentioned above, do not send the IRS the revised Form 1040 (the taxpayer does get a copy of this, of course) *unless* a change appears *only* on the Form 1040 - for example, alimony paid, on line 11. (Usually the change occurs on a supporting schedule that is printed and included.)
- o Do not include a 1040-V, payment voucher.
- o If the amended return is the result of a letter or notice from the IRS, mail the amended return, with a copy of the letter or notice enclosed, to the address shown on the letter
 - Otherwise, mail the amended return to the address shown on page iv, above.
- **CA:** The taxpayer must **sign** and mail one copy of the 540-X with supporting documents to the FTB
 - o The supporting documents are:
 - The revised CA 540, marked, in red ink, at the top of the first page: “AMENDED, DO NOT PROCESS – ATTACHMENT TO FORM 540X”, together with all revised CA forms and schedules.
 - Federal schedules that have changed
 - The revised Form 1040, **only if** a change occurred **only** on that form, as discussed above
 - Documents supporting the changes, such as corrected W-2, 1099s, and K-1s
 - o If the amended return is the result of a letter or notice from the FTB, mail the amended return, with a copy of the letter attached, to the address shown on the letter
 - Otherwise, mail the amended return to the address shown on page iv, above.
- The taxpayer should be given full set of pages of the amended returns; mark these “**Amended – Copy**”

Checking the Status of an Amended Return

- An amended return can take up to 3 weeks after being mailed before it is entered into the IRS system and its status can be checked; processing it can take up to 16 weeks.
- Taxpayers can check the status of an amended return by calling 866-464-2050, or on-line at www.irs.gov/filing

REQUEST FOR EXTENSION OF TIME TO FILE

- An automatic six-month extension of time to file a federal return is available for most taxpayers by submitting Form 4868, which can be done as follows:
 - o Filing Form 4868 by phone or on IRS.gov between February 1 and April 18 if a payment is due
 - o E-filing Form 4868 (if approved by your LC) with direct debit if a payment is due
 - o Mailing a paper Form 4868 with a check for any tax due
- **CA** grants an automatic extension of time to file as long as the tax is paid in full by the due date
 - o No form is needed if no payment is required
 - o If a payment will be made to the FTB, CA Form 3519 is the payment voucher.
- The key point that the taxpayer must understand is that any tax liability (which will have to be estimated) must be paid to both the IRS and CA by April 18, otherwise interest and/or a penalty will accrue
 - o There is little point in filing an extension if no payment is going to be made with the extension request: if the taxpayer owes money when (finally) filing, but does not pay anything with the extension, then the IRS is likely to treat the matter as a late filing, disregarding the extension request. And if the taxpayer in fact owes no money or is getting a refund, there is no value in filing an extension request because a taxpayer in that situation isn't subject to a late filing penalty.
- To complete the Form 4868 information:
 - o Enter name and address information in the Basic Information section.
 - o Don't enter information in the Federal or State sections unless the site is open after April 18, 2017, and the taxpayer will return to the site to complete the return.
 - o Go to **Form 4868 - Application for Extension** [Federal Section > Miscellaneous Forms > Application for Extension (Form 4868)]
 - o Fill in the requested dollar amounts:
 - “Tax Liability” is an estimate of the amount that will be on Line 63 of the Form 1040, when filed. (Use the prior year's tax return, if available, as a starting point.)
 - “Tax Payments” is an estimate of the amount that will be on Line 74 of the Form 1040, when filed, *not including* the amount of Line 70 (the amount being paid with the request for extension). As a starting point, total the amount of federal taxes withheld on available taxpayer documents, plus federal estimated tax payments made.

- o Check the box “I was out of the country” if the taxpayer *expects* to be out of the country on the regular due date of the return (April 18, 2017)
- o After entering a dollar amount for “Amount Paid with Extension”, **tab – do not click on “Go to Extension Payment” or “Continue”**. TaxSlayer will display the question “Would you like to pay your balance due electronically?”
 - If you check the box, to indicate “Yes”, TaxSlayer will extend the page so that bank information can be entered.
 - If you don’t check the box, the taxpayer will be paying by credit or debit card, or by check
- After the Form 4868 information has been entered, the extension can be e-filed: click “Continue”, then go to the e-File section
 - o **Note:** Do not e-file if the taxpayer is going to pay by check; a printed copy of the Form 4868 should be mailed with the check.
 - o The **Application for Extension Found** page will appear. Click “File Extension”
 - o The **Submit Extension** page will appear. Click “I Understand” and then “Continue”
 - o On the **Review** page, enter any five-digit number for the taxpayer (and, if MFJ, do similar for the spouse), then click “Continue”
 - o You’ll see a page saying that the extension request has been submitted; click “Continue” to complete the process
 - o If the taxpayer is going to pay by debit or credit card, provide information on how to do so – see the Pay by Credit Card section, on page **100**, below
 - In the payment process, online, the taxpayer will be asked, in a very clear way, the purpose of the payment – in this case, as part of a request for an extension for a 2016 tax return.
- If the taxpayer is going to pay by check, a printed copy of the Form 4868 should be mailed with the check. The form can be printed by generating a standard PDF for the return, then printing just the Form 4868 page.
- Inform the taxpayer that their tax return must be complete and filed by October 15 to avoid penalties for late filing, and if there are any Tax-Aide sites in your district, or a nearby district, that will be operating after April 18, 2017.
- Printing any pages of the return for the taxpayer, assuming that information from tax documents has been entered into TaxSlayer, is **not recommended**: the return is not complete and will not be filed. Printing of pages may lead the taxpayer to believe that the return was in fact filed by Tax-Aide
 - o If you do print any pages, “DRAFT” should be written on each page to make clear that the return will not be filed by Tax-Aide

END-OF-SHIFT

Logs and Sign-in Sheets

- You should give your completed Site Logs (or equivalent) to the ERO.
 - o Look at “Active Returns” in TaxSlayer to make sure that all returns that you worked on were correctly recorded on the log
 - In particular, for any returns not completed, the information in the Comments column section **MUST** be consistent with the Return Stage for that return.
 - o If your site has each counselor track Q&As on their own log, make sure that you have recorded the number of clients for whom you answered tax questions, where the clients were not getting their return prepared by your site
- Some sites track information centrally and want preparers to help with that tracking. If so:
 - o Check that everyone you have seen is properly recorded on the site sign-in sheet (cross-check with TaxSlayer information and/or your Activity Reporting log)
 - o Record, on the site sign-in sheet, the number of tax questions that you answered that did not involve a client whose return was being prepared by your site

Shutdown Procedures for IRS and AARP Foundation Equipment

- Log out of TaxSlayer by clicking the **Log out** link at the upper right of the screen, at the **Main Menu**.

Follow the proper procedures for shutting down your laptop computer – do not just pull out the power cord and close the lid! Not fully shutting down could result in the battery running down to zero, and will always add extra start-up time the next time you use your computer.

Site Logs

- Shut down the computer using the appropriate commands.
- Wait until the screen turns completely black and the power switch goes dark before pulling out the power plug and closing the lid
- When the power plug is pulled, ALL lights on the keyboard should go out
 - If they don't, then the shutdown process was not done properly
- Put the laptop, power cord, mouse, and mouse pad in your laptop case, making sure that you have the correct case (the computer's identifying number matches the number on the case, or the case has a label or other information identifying it as yours)

SITE LOGS

- The AARP Foundation must track counseling activity at each site, because this is the basis for the IRS grant that partially funds the program
- In addition, the site ERO needs to track which returns are ready to be e-filed
- Sites can use various logs, which may include:
 - Site Sign-in sheet: to keep track of clients in order to determine the sequence of service, and to track counseling services provided
 - Activity Reporting log: information about returns worked on by each preparer; this is used by the site's ERO to control processing of e-files
- Sites can use their own formats for logs as long as they collect the following required elements of client activity:
 - Paper-filed current year returns
 - Prior year federal returns prepared
 - Amended federal returns prepared
 - State-only returns prepared
 - Count of "Q&A" services (services for a client where no return was prepared)
- Your LC provides this information to the DC at specific intervals. Some of this information may be collected by the ERO and given to the LC.

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN)

About ITINs

- 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, beginning with the number 9 and having a 7 or 8 as the fourth digit, created for use on tax returns by those taxpayers who do not currently qualify for (or have) a Social Security number
- An ITIN will be issued to individuals who have a valid filing requirement, who file in order to claim a refund of taxes withheld, or if needed on the tax return of another individual (for example, a parent or spouse)
- The ITIN does NOT:
 - Authorize work in the U.S.
 - Provide eligibility for Social Security benefits OR the Earned Income Tax Credit
 - Provide valid identification outside the tax system
 - Establish immigration status
- **Expiring ITINs**
 - ITINs with middle digits of 78 and 79 (for example, 9NN-78-NNNN) *expire* as of January 1, 2017. So do ITINs which have not been used for a tax return for *any* of the past three years (2013, 2014, and 2015)
 - If the taxpayer has such an ITIN, the IRS should have sent the taxpayer [Letter 5821](#)
 - A tax return that is e-filed with an expired ITIN **will** be accepted by the IRS. However, it will be processed without any exemptions and/or credits claimed and no refund will be issued. The IRS will send the taxpayer a notice explaining the delay in any refund and that the ITIN must be renewed.
 - Once the ITIN is renewed, any exemptions and credits will be processed and any allowed refund will be paid.

- If the ITIN is not renewed, the taxpayer may be subject to interest and penalties for any tax owed as a result of disallowed exemptions and credits
- If an ITIN has expired, the taxpayer must submit a Form W-7 to renew it. This can be submitted *with* the tax return, in which case the return must be paper-filed, or separately. Both options are discussed below.
- More information on ITINs can be found at irs.gov/Individuals/General-ITIN-Information, in [Chapter 1, "Filing Information", of Pub 17](#), and in [Pub 1915, Understanding Your IRS Individual Taxpayer Identification Number](#)

Taxpayer Obtains a Valid SSN (Previously Filed Using an ITIN)

- Prepare the current year return using the new, valid SSN, and e-file the return
- If of benefit to the taxpayer, amend prior year(s) returns that were filed using an ITIN
 - The reason stated on *1040X Page 2* should include “Previous return filed with ITIN _____” as well as describing what else has changed
 - **Note:** As of December 2015, taxpayers with newly issued SSNs or ITINs cannot retroactively claim certain credits if/when they file an amended return, or a return for a prior year. See [page M-3 of Pub 4012](#), “Prior Year Returns”, for details

Form W-7 Submitted with a Tax Return

- Preparation of a Form W-7, “Application for IRS Individual Taxpayer Identification Number”, when the form is going to be filed with the tax return (which must be paper-filed), *is* in-scope.
- The process of completing a W-7 in TaxSlayer is described in the three places in the sections above: Social Security Number (for the taxpayer), Spouse Social Security Number, and Dependents.
- The process of printing a Form W-7 to be filed with the tax return is described in the section Paper Returns that Include a Form W-7, on page [98](#), above.

Form W-7 Submitted Separately

- Preparation of a form W-7 as a **separate document**, not part of a tax return, is **out-of-scope**. However, it is acceptable to print a blank W-7 and give it to the taxpayer; the taxpayer is responsible for completing it.
 - A blank Form W-7, Application for IRS Individual Taxpayer Identification Number, and instructions, can be found [on the IRS.gov website](#).
 - To complete the form, the applicant(s) should follow the instructions for the form
- The Form W-7 can be submitted either by mail or in person.
 - If by mail, to the following address:
IRS, ITIN Operation
PO Box 149342
Austin, TX 78714-9342
 - Applying in person can be done either at a Taxpayer Assistance Center or with an IRS-authorized Acceptance Agent. An advantage of applying in person is that documentation required to be submitted with the application can be returned immediately.
 - Taxpayer Assistance Center locations where in-person document review is provided are listed [here](#) (the link is also on page 4 of the instructions for the form).
 - A list of acceptance agents can be found at <https://www.irs.gov/individuals/acceptance-agent-program>
 - It generally takes 4 to 6 weeks after an application is submitted to receive an ITIN, but 8 to 10 weeks if requested during the tax season.

GLOSSARY

ACA	Patient Protection and Affordable Care Act
ACTC	Additional child tax credit
AGI	Adjusted gross income
AMT	Alternative minimum tax
AOC	American Opportunity credit, formerly HOPE education credit
APTC	Advance premium tax credit (part of the ACA)
CASDI	California state disability insurance
CCH	Commerce Clearing House- publisher of TaxSlayer
COD/CODI	Cancellation of debt / Cancellation of debt income
CTC	Child tax credit
DC	District Coordinator - the individual responsible for all sites in a district
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
EIC / EITC	Earned income credit / Earned income tax credit
EIN / FEIN	Employer (Tax) Identification Number - the federal ID number for processing employer payroll information
ERO	Electronic Return Originator - the person responsible for the efile of tax returns
FTB	Franchise Tax Board – California governmental unit that handles the state income tax
HoH	Head of household (filing status)
HSA	Health savings account
ITIN	Individual taxpayer identification number – for those without a SSN
LC	Local Coordinator (the individual responsible for one or more tax preparation sites)
LTC	Long-term care
MAGI	Modified adjusted gross income For 8965 purposes: AGI + excluded foreign earned income + exempt interest income For 8962 purposes: AGI + excluded foreign earned income + exempt interest income + nontaxable SS income (but not Supplemental Security Income [SSI])
MEC	Minimum essential coverage (for ACA)
MFJ	Married filing jointly (filing status)
MFS	Married filing separately (filing status)
OPM	Office of Personnel Management - the federal agency which pays government pensions
PAB	Private activity bond
POA	Power of attorney
Pub	IRS Publication
PSO	Public safety officer
PTC	Premium tax credit (ACA) – the federal subsidy for those buying insurance through an exchange
QW	Qualifying widow/er (filing status)
RDP	Registered domestic partner
RTN	Routing transit number (9-digit number assigned by the Federal Reserve to identify each bank)
S	Single (filing status)
SC	State Coordinator - the individual responsible for all districts in on of the five sub states in California
SDI	Same as CASDI
SIDN	Site Identification Number - a unique seven digit number starting with “S” assigned to each physical counseling site operated by Tax-Aide
SPEC	Stakeholder Partnerships Education and Communication office of the IRS
SRP / ISRP	(Individual) Shared Responsibility Payment (for ACA)
SS / SSN	Social Security / Social Security number
TC	Technology Coordinator for a Tax-Aide district
TCE	Tax Counseling for the Elderly – the IRS program in which Tax-Aide is the largest, but not the only participant
VI / VP / VPDI	Voluntary Insurance / Voluntary Payment / Voluntary Payment Disability Insurance - NONE of which are deductible (on Schedule A) as a state tax
VITA	Voluntary Income Tax Assistance Program – free tax preparation for low-income taxpayers

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CALIFORNIA INCOME TAX INTERVIEW WORKSHEET

(Optional form; may be used in conjunction with IRS Form 13614-C, or as a source for questions) (12/11/2016)

Name:		Date				
County:		Married ____ Single ____				
To be completed by all Taxpayers				Yes	No	Not sure
1.	Were you (and your spouse, if filing a joint return) a California resident for the entire year 2016?					
2.	Was any of your income taxed by another state or local government or did you pay taxes to a foreign country?					
3.	Do you (or your spouse if filing a joint return) have a filing responsibility in another state? (For example, you have a rental property or you worked in another state during the year.)					
4.	Did you or your spouse receive any Indian Tribal Income during the tax year? (If no, skip to Q.5)					
	Did you reside on Indian tribal land?					
	Did you work on Indian tribal land?					
5.	Did you take any IRA withdrawals and previously made any contributions to your IRA while a legal resident of California that were not fully deductible in California (generally prior to 1987)?					
	Do you have records of those contributions that were not deducted?					
6.	Did you receive a reward from a crime hotline? (CA Form 540, line 21 B)					
7.	Did you pay rent for your home in California for at least 6 months during the tax year? (Renter credit)					
8.	If you are the noncustodial parent of a child, did you maintain your home as the main home for a child that lived with you for at least 146 days but less than 219 days? (credit code 170)					
9.	If over 65 years of age and you qualified to file as head of household in 2014 or 2015, did your qualifying dependent die in either 2014 or 2015? (credit code 163)					
10.	If you sold real estate during the tax year, did you receive CA Form 593?					
11.	Did you claim a California credit for a new home purchase? If so, what year _____					
12.	Did you purchase items for use in California without paying sales tax at the time of purchase? (purchases by phone, over the Internet, or by mail, for example) (line 95)					
13.	Do you want to make a voluntary contribution to one or more special funds? (line 110)					

Complete only if you want to file as Married Filing Separately*				Yes	No	Not sure
14.	Did you live apart the entire year AND do you have no intention to reconcile?					
15.	Are any of your funds commingled?					
16.	Were you a full-year resident of California?					
17.	Name of spouse (print):					
18.	Spouse's Social Security number:					
19.	Is your spouse a U.S. Citizen, a U.S. national, or a resident of the United States?					
20.	Is your spouse taking the standard deduction on his/her tax return?					
21.	Spouse's address (if known) (print):					
22.	Did you pay for the support of a dependent parent? (credit code 173)					

*Local Coordinator or reviewer must approve Married Filing Separately status