

**AARP FOUNDATION TAX-AIDE**  
**CALIFORNIA**  
**COUNSELOR REFERENCE MANUAL**  
**(CRM)**  
**For TaxSlayer Online**  
**TAX YEAR 2018**



The printed CRM can be ordered from the Franchise Tax Board  
A downloadable PDF of the CRM can be found at [aarpc2.org](http://aarpc2.org) , under “Documents”  
Corrections? Comments? Suggestions? Send email to [jebroughton \(at\) gmail.com](mailto:jebroughton@gmail.com)



# TABLE OF CONTENTS

<b>GENERAL INFORMATION</b> .....	<b>1</b>
<b>RESOURCES</b> .....	<b>1</b>
<b>WHAT TAX-AIDE CAN AND CANNOT DO - SCOPE</b> .....	<b>3</b>
<b>ONLINE PROCEDURES</b> .....	<b>4</b>
BROWSERS AND BROWSER SETTINGS.....	4
LOGIN PROCEDURES.....	5
AT START OF THE DAY.....	5
NAVIGATION WITHIN A RETURN.....	6
ENTERING INFORMATION.....	7
COMMUNICATING WITHIN TAXSLAYER.....	9
<b>INITIAL STEPS FOR A TAX RETURN</b> .....	<b>10</b>
INTERVIEWING THE TAXPAYER.....	10
DETERMINING IF A RETURN SHOULD BE PREPARED.....	11
ORGANIZING YOUR WORK.....	12
STARTING A NEW RETURN.....	13
OPENING AN EXISTING RETURN.....	15
<b>BASIC INFORMATION</b> .....	<b>15</b>
FILING STATUS.....	16
PERSONAL INFORMATION.....	18
DEPENDENTS AND QUALIFYING CHILDREN.....	21
INTAKE BOOKLET.....	23
<b>FEDERAL SECTION - INCOME</b> .....	<b>24</b>
LINE 1 - WAGES, SALARIES, AND TIPS.....	24
LINE 2 - TAXABLE AND TAX-EXEMPT INTEREST.....	32
LINE 3 - DIVIDENDS.....	34
LINE 4 - PENSIONS AND ANNUITY INCOME & IRA DISTRIBUTIONS.....	35
LINE 5 - SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS.....	44
SCHEDULE 1, LINE 10 - TAXABLE STATE INCOME TAX REFUND.....	46
SCHEDULE 1, LINE 11 - ALIMONY RECEIVED.....	47
FORM 1099-MISC.....	47
SCHEDULE 1, LINE 12 - BUSINESS INCOME.....	48
SCHEDULE 1, LINE 13 - CAPITAL GAIN OR LOSS.....	53
SIMPLE SCHEDULE K-1 FORMS, INCLUDING PREPAID FUNERAL PLANS.....	57
SCHEDULE 1, LINE 14 - OTHER GAINS OR LOSSES ( <i>OUT-OF-SCOPE</i> ).....	58
SCHEDULE 1, LINE 17 - RENTAL REAL ESTATE AND ROYALTIES.....	58
SCHEDULE 1, LINE 18 - FARM INCOME ( <i>OUT-OF-SCOPE</i> ).....	59
SCHEDULE 1, LINE 19 - UNEMPLOYMENT COMPENSATION.....	59
SCHEDULE 1, LINE 21 - OTHER INCOME.....	60
<b>ADJUSTMENTS TO INCOME</b> .....	<b>64</b>
SCHEDULE 1, LINE 23 - EDUCATOR EXPENSES.....	64
SCHEDULE 1, LINE 24 - CERTAIN BUSINESS EXPENSES ( <i>OUT-OF-SCOPE</i> ).....	64
SCHEDULE 1, LINE 25 - HEALTH SAVINGS ACCOUNT.....	64
SCHEDULE 1, LINE 26 - MOVING EXPENSES ( <i>OUT-OF-SCOPE</i> ).....	65
SCHEDULE 1, LINE 27 - DEDUCTIBLE PART OF SELF EMPLOYMENT TAX.....	65

SCHEDULE 1, LINE 28 - SELF-EMPLOYED SEP, SIMPLE PLANS ( <i>OUT-OF-SCOPE</i> ).....	65
SCHEDULE 1, LINE 29 - SELF-EMPLOYED HEALTH INSURANCE (SEHI) .....	65
SCHEDULE 1, LINE 30 - PENALTY ON EARLY WITHDRAWAL OF SAVINGS .....	66
SCHEDULE 1, LINE 31 - ALIMONY PAID .....	66
SCHEDULE 1, LINE 32 - IRA DEDUCTION .....	66
SCHEDULE 1, LINE 33 - STUDENT LOAN INTEREST DEDUCTION .....	67
SCHEDULE 1, LINE 34 - TUITION AND FEES DEDUCTION .....	68
SCHEDULE 1, LINE 36 – WRITE-IN ADJUSTMENTS.....	68
<b>TAXABLE INCOME AND TAX CALCULATION.....</b>	<b>68</b>
LINE 8 – STANDARD OR ITEMIZED DEDUCTION .....	68
LINE 9 – QUALIFIED BUSINESS INCOME DEDUCTION .....	80
LINE 11 - TAX.....	80
LINE 12A - CHILD TAX CREDIT AND CREDIT FOR OTHER DEPENDENTS .....	80
SCHEDULE 2, LINE 45 - ALTERNATIVE MINIMUM TAX ( <i>OUT-OF SCOPE</i> ) .....	81
SCHEDULE 2, LINE 46 - EXCESS ADVANCE PREMIUM TAX CREDIT REPAYMENT .....	81
<b>NON-REFUNDABLE CREDITS.....</b>	<b>84</b>
SCHEDULE 3, LINE 48 - FOREIGN TAX CREDIT .....	84
SCHEDULE 3, LINE 49 - CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES.....	84
SCHEDULE 3, LINE 50 - EDUCATION CREDITS.....	86
SCHEDULE 3, LINE 51 - RETIREMENT SAVINGS CONTRIBUTION CREDIT.....	88
SCHEDULE 3, LINE 53 - RESIDENTIAL ENERGY CREDITS .....	90
SCHEDULE 3, LINE 54 - OTHER CREDITS .....	90
<b>OTHER TAXES.....</b>	<b>90</b>
SCHEDULE 4, LINE 57 - SELF-EMPLOYMENT TAX.....	90
SCHEDULE 4, LINE 58 - UNREPORTED SOCIAL SECURITY AND MEDICARE TAX .....	91
SCHEDULE 4, LINE 59 - ADDITIONAL TAX ON IRAS, OTHER QUALIFIED PLANS .....	91
SCHEDULE 4, LINE 60A - HOUSEHOLD EMPLOYMENT TAXES ( <i>OUT-OF-SCOPE</i> ) .....	92
SCHEDULE 4, LINE 60B - FIRST-TIME HOMEBUYER CREDIT REPAYMENT, FORM 5405 ...	92
SCHEDULE 4, LINE 61 - HEALTH CARE: INDIVIDUAL RESPONSIBILITY .....	93
SCHEDULE 4, LINE 62 - OTHER TAXES .....	96
SCHEDULE 4, LINE 63 - SECTION 965 NET TAX LIABILITY ( <i>OUT-OF-SCOPE</i> ) .....	97
<b>PAYMENTS AND REFUNDABLE CREDITS.....</b>	<b>97</b>
LINE 16 - FEDERAL INCOME TAX WITHHELD .....	97
LINE 17A - EARNED INCOME CREDIT .....	97
LINE 17B - ADDITIONAL CHILD TAX CREDIT .....	97
LINE 17C - AMERICAN OPPORTUNITY CREDIT .....	98
SCHEDULE 5, LINE 66 - 2018 ESTIMATED TAX PAYMENTS.....	98
SCHEDULE 5, LINE 70 - NET PREMIUM TAX CREDIT.....	98
SCHEDULE 5, LINE 71 - AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE.....	98
SCHEDULE 5, LINE 72 - EXCESS SOCIAL SECURITY .....	99
SCHEDULE 5, LINE 73 - FEDERAL TAX ON FUELS, FORM 4136 ( <i>OUT-OF-SCOPE</i> ) .....	99
SCHEDULE 5, LINE 74 – OTHER CREDITS .....	99
<b>STATE SECTION AND CA ADJUSTMENTS &amp; DIFFERENCES .....</b>	<b>99</b>
BASIC INFORMATION .....	100
ADJUSTMENTS AND DIFFERENCES .....	100
ADDITIONS TO INCOME.....	101
SUBTRACTIONS FROM INCOME .....	102
DIFFERENCES IN CALCULATING INCOME.....	103

FEDERAL ADJUSTMENTS NOT RECOGNIZED BY CA .....	103
ITEMIZED DEDUCTIONS TREATED DIFFERENTLY BY CA .....	104
HEALTH SAVINGS ACCOUNTS IN CA.....	105
CA-ONLY CREDITS .....	106
CA USE TAX .....	107
CA-ONLY VOLUNTARY CONTRIBUTIONS .....	108
STATE TAX WITHHELD .....	109
STATE ESTIMATED TAX PAYMENTS .....	109
<b>BALANCE DUE .....</b>	<b>109</b>
UNDERPAYMENT PENALTIES.....	109
DIRECT DEBIT .....	110
DIRECT PAY .....	110
<b>REFUND DUE .....</b>	<b>110</b>
DIRECT DEPOSIT .....	110
APPLICATION OF OVERPAYMENTS TO NEXT YEAR’S TAX RETURN .....	111
INJURED SPOUSE CLAIM.....	111
<b>ESTIMATED TAX PAYMENTS FOR NEXT YEAR .....</b>	<b>111</b>
FEDERAL ESTIMATED TAX PAYMENTS.....	111
CA ESTIMATED TAX PAYMENTS (CA FORM 540-ES).....	112
<b>E-FILE SECTION .....</b>	<b>113</b>
WARNINGS AND ERRORS.....	113
E-FILE PAGE .....	113
SUBMISSION PAGE.....	116
<b>FINAL STEPS IN TAX RETURN PREPARATION .....</b>	<b>117</b>
EXITING A RETURN BEFORE COMPLETION .....	117
QUALITY REVIEW.....	117
REVIEW RETURNS WITH THE TAXPAYER.....	119
PRINTING RETURNS.....	120
E-FILING: SIGNATURES .....	121
PAPER RETURNS.....	122
SUBMITTING E-FILES .....	123
<b>UNABLE TO PAY/LATE FILING .....</b>	<b>123</b>
UNABLE TO PAY - FEDERAL .....	124
UNABLE TO PAY - CALIFORNIA .....	125
LATE FILING .....	125
<b>OTHER RETURNS AND FILINGS.....</b>	<b>126</b>
PRIOR YEAR RETURNS .....	126
AMENDED RETURNS.....	127
CLAIMS FOR REFUND: COMBAT-INJURED VETERANS TAX FAIRNESS ACT OF 2016 .....	131
REQUEST FOR EXTENSION OF TIME TO FILE .....	132
INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN).....	133
<b>END-OF-SHIFT .....</b>	<b>135</b>
<b>GLOSSARY .....</b>	<b>137</b>
<b>INDEX.....</b>	<b>138</b>

***Where to Mail Returns and Payments***

<b>What</b>	<b>Internal Revenue Service</b>	<b>CA Franchise Tax Board</b>
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 1040-V and payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (CA Form 3582 and payment)
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 and 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 1040-ES)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (Form CA Form 540ES)
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)
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
Response to a letter from the IRS or 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](http://aarp.org/tavolunteer), 888-775-2277, or put them in contact with your District Coordinator (DC) or Local Coordinator (LC)
- Those interested in other AARP programs, such as Reverse Mortgages, Senior Community Service, and Money Management, should be directed to [aarp.org/giving-back](http://aarp.org/giving-back); they can also call the above phone number.
- Donations: Tax-Aide volunteers cannot accept money, nor are they allowed to bring up the subject of donations with a taxpayer.
  - Taxpayers 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.
    - **Note:** This mailing address is also on the Tax Record envelope (D12225)
- If the laptop computer in your custody is lost or stolen, you must report the loss/theft within 24 hours to your Local Coordinator AND to the AARP National Office, 800-424-2277, ext. 32038 or 36027 (202-434-2038/6027 outside of regular business hours). You also should promptly notify your local police department.

## RESOURCES

### ***AARP Foundation***

- The Libraries section of the [Volunteer Portal](http://volunteers.aarp.org) (volunteers.aarp.org) is where Tax-Aide program documents are kept.
  - The best way to find a document is to use a key word or phrase (“ACA” or “filing status”, for example), to search all libraries.
- 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
  - In the Portal, in the Libraries section, these can be found by searching on “CyberTax”

### ***Internal Revenue Service and Franchise Tax Board***

- IRS website – Publications (“Pubs”), forms, and answers to tax questions: [irs.gov/](http://irs.gov/)
- Franchise Tax Board (State of California)
  - Publications, forms, and answers to questions: [ftb.ca.gov/](http://ftb.ca.gov/)
  - Email for questions from Tax-Aide and similar programs: [volunteercoordinator@ftb.ca.gov](mailto:volunteercoordinator@ftb.ca.gov)
  - myFTB – Information for a taxpayer: estimated tax payments made, balance due, CA wage and withholding information: [ftb.ca.gov/online/myacct/index.asp](http://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 with taxpayers\*\***

<b>IRS PHONE NUMBERS</b>		<b>FTB PHONE NUMBERS</b>	
M-F 6am to 5:30pm, Sat 6am to 2pm, Pacific Time		M-F 8am to 4pm, Pacific Time	
<b>Volunteer Hotline*</b>	<b>800-829-8482</b>	<b>Volunteer Hotline</b>	<b>800-522-5665</b>
Tax Information	800-829-1040	Volunteer Coordinator	916-845-6237
Automated Refund Info	800-829-1954	General Number	800-852-5711
e-file Help Desk (for rejects)	866-255-0654	Automated Service	800-338-0505
ID Protection Specialized Unit	800-908-4490	ID Theft Resolution Coordinator**	916-845-3669

\* For tax law issues

\*\* **Note for CA state returns:** 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](http://taxslayerpro.com/kb).
- The TaxSlayer “2018 Comprehensive Pro Online User Guide” is available on the left navigation bar of the Main Page in TaxSlayer. To download, click on the link; then the “play” icon; then “Files”, on the left; then on the user guide name.
  - The first 240+ pages are for administrators; the next 320+ pages cover how to prepare a tax return, and the final 40+ pages are for EROs and administrators.
- The TaxSlayer VITA/TCE blog is at [vitablog.taxslayerpro.com](http://vitablog.taxslayerpro.com)
- During the filing season (January 2 – April 16), TaxSlayer will provide real-time support via both chat and phone support (800-421-6346) from 8 a.m. to midnight, Eastern Standard Time, on weekdays, and 8 a.m. to 8 p.m. on weekends.
  - On-line chat is available from inside any taxpayer return – click on “Help & Support”, and then “Chat With Us”
  - Questions can also be emailed to [support@vita.taxslayerpro.com](mailto:support@vita.taxslayerpro.com)

### ***California (sub)State Websites***

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

### ***Recommended steps for researching an unfamiliar topic***

- Question the taxpayer thoroughly to obtain all relevant facts, while reviewing their Intake Booklet and the related tax form(s)
- Begin with [Pub 4012](#), VITA/TCE Volunteer Resource Guide, which provides information for most common questions, including questions related to TaxSlayer, in an easy-to-use format. Keep in mind that the online version modified by the National Tax Training Committee (NTTC) has more information than the printed IRS publication issued in October 2018.
  - Pub 4491-X, VITA/TCE Training Supplement, is normally published by the IRS in December (but currently delayed), and contains updates to Pub 4012, Pub 4491, and other IRS publications.
  - The latest NTTC version of Pub 4012 can be found on the AARP Volunteer Portal; search in the Libraries on “4012”.
    - While the NTTC version is **better** than the standard IRS version, the links in this manual are to the IRS version because the NTTC version, in the Portal, cannot be linked to.
    - NTTC also publishes a set of updated pages that can be printed, to replace selected pages in the IRS version of Pub 4012, for those who want to reference a printed copy of the NTTC version.
- 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](http://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 - 2018 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 Libraries section of the [Volunteer Portal](http://volunteers.aarp.org) (volunteers.aarp.org)
- Use one of the Volunteer Hotlines listed 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 NTTC publishes the *Tax-Aide Scope Manual*, a comprehensive list of which federal tax forms are in-scope and which are *out-of-scope*. The manual can be downloaded from the [Volunteer Portal](http://volunteers.aarp.org) (volunteers.aarp.org; login required) > Libraries > search on “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 8 through 10). **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, due to two issues.
  - The additional Medicare tax on earned income or a net investment income tax applies when modified adjusted gross income exceeds \$250,000 for MFJ, \$125,000 for MFS, and \$200,000 for the other filing statuses
  - If the taxpayer has *any* (net) business income [Line 12 of Schedule 1], the maximum is even lower – if adjusted gross income less the taxpayer’s standard or itemized deductions exceeds \$157,500 for any filing status other than MFJ, then the return is *out-of-scope* because of the complications of calculating the 20% Qualified Business Income (“QBI”) deduction.
  - **Note:** It is **not** appropriate to spend time preparing a return simply to determine if a threshold has been reached (if so, the time of the preparer and taxpayer has been wasted). If the AGI appears to be close to the threshold, the taxpayer should be advised that he/she needs to go to a paid preparer or use tax-preparation software.
- TaxSlayer does not provide the needed functionality to handle federal tax returns involving bona fide residents of Puerto Rico who moved to the United States in 2018 and have income earned in Puerto Rico in 2018, or have a Puerto Rico pension to which the taxpayer contributed. Accordingly, such returns are *out-of-scope*.
- When something is “*out-of-scope*”, there are two possible ways of dealing with it:
  - If the issue involves something that **must** be reported on a tax return, then the taxpayer is to be advised that Tax-Aide cannot prepare the return.
    - For example, rental income **must** be reported, even if the taxpayer can claim a loss [the tax return is required in order to *document* the claimed loss], but rental income from a building is *out-of-scope*
  - If the issue involves something that is **optional** – for example, the deduction for a Simplified Employee Pension (SEP) plan (Line 28 of Schedule 1), then the taxpayer has a choice:
    - (1) 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 9) and on the second or third page of Intake Booklet
      - Be aware that it is *not an option* to omit expenses on Schedule C, because omitting information from a tax return *cannot legally be done if that omission benefits the taxpayer*. [Increasing the net income on Schedule C can increase various credits, including EIC, that depend on the amount of earned income.]
    - (2) 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.

### ***Preparation of a return that is out-of-scope***

- Knowingly going out of scope is a violation of the Tax-Aide 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*.

## Online Procedures

- 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://irs.gov/filing)) or purchased software
  - The IRS maintains a list of federal tax preparers with credentials and select qualifications, such as enrolled agents, at [irs.treasury.gov/rpo/rpo.jsf](https://irs.treasury.gov/rpo/rpo.jsf) ; this is searchable by credential and location (zip code)
  - The California Society of Enrolled Agents has a [search page](#) to locate nearby EAs.
- **CA policy:** Federal or California returns that require income splitting are *out-of-scope*, primarily because California is a community property state. Income-splitting is required for:
  - MFS returns (see limited exceptions, in Married Filing Separately , page 16)
  - Registered Domestic Partner (RDP) returns
  - Returns of any filing status where a divorce occurred in 2018, but there was an intact household at any time earlier in that calendar year.
  - 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*.
  - 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 of California 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.
  - Document this discussion in a note (page 9) and on page 1 of the taxpayer's Intake Booklet.

# ONLINE PROCEDURES

## BROWSERS AND BROWSER SETTINGS

- TaxSlayer Pro Online is web-based software that is accessed via an Internet browser.
  - **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 on the TaxSlayer website, since these are used by TaxSlayer:
  - For the Chrome browser: in a new tab or window, in the address bar, type **chrome://settings** and press [Enter] or [Return].
    - On Windows 10 computers and on Macs, at the bottom of the page, click on "Advanced", then in the "Privacy and security" area, click on "Content settings". Scroll down until you see "Pop-ups and redirects"; click on those words to see the options. You want to either allow popups everywhere, or allow popups specifically for TaxSlayer. To do the latter, under "Allow", click "ADD". Then type **taxslayerpro.com** and click "ADD", then close the Settings tab, unless you want to adjust how PDFs are handled (see next paragraph).
    - 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, at the bottom of the page, click on "Advanced", then in the "Privacy and security" area, click on "Content settings". Scroll down until you see "PDF documents." Click on that, then move the slider to the left. Close the Settings tab.

- 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, 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** ), turn off "Sync everything" (slide to the left) if it's on, then slide "Autofill" to the left.
    - If you are using your home computer, and disable Autofill, you won't lose any information. When you change this setting to again enable Autofill, Chrome will remember all previous Autofill entries.
- You can change your browser settings to view TaxSlayer pages at greater than 100% without breaking anything, if you find the text to be too small on your computer screen
  - In Chrome, this is done from the View menu – select "Zoom In"

## LOGIN PROCEDURES

- If you are logging into TaxSlayer from a new computer (one from which you have not logged in to TaxSlayer previously), **or from a new browser**, then 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 cell 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 might want to log into every computer where they are likely to do a review, before the site is active for the day, to handle multi-factor authentication.*
  - After fifteen days, your multi-factor authentication (MFA) expires, and you will have to authenticate yourself again when you log in. You'll also have to go through the MFA process if you log in after clearing cookies from your web browser.
- If you forget your password, you will have to go through the multi-factor authentication process, getting a temporary password via either email or text, as described above.
- 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. (Usernames are not.)
  - Passwords expire after 90 days.

## 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: <https://vita.taxslayerpro.com/ProAvalon/Login/>
  - Returns prepared for training purposes are done in the Practice Lab, which is at a different URL, and has different usernames and passwords
    - Logging into Practice Lab is via <https://vita.taxslayerpro.com/IRSTraining/en/Account/Access>
- Log into TaxSlayer
  - **Note: if this is the first time you have logged onto TaxSlayer from this computer, you need to authenticate yourself**
    - TaxSlayer will send an email or a text message, depending on what you specify; you'll need to enter the code in the email or text message to confirm your identity. (If you have online access to TaxSlayer, then you probably have online access to your email, but text messages are much quicker to receive.)
- Maximize the screen:

## Online Procedures

- 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 12 minutes of inactivity within a return, TaxSlayer will display a pop-up warning. After 15 minutes of inactivity (“idle time”), a user will be logged out of that return. (This is five minutes less time than during the 2018 filing season.)

## 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 a main work area with either a menu or with data entry fields. In addition, the taxpayer’s name will show in the upper right *after* Basic Information has been entered; this is important because a pull-down menu displays when you click on the taxpayer’s name, as discussed below. (See [page D-3 of Pub 4012](#) for an illustration; the taxpayer’s name is “Mr Taxpayer”.)
- 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; *you don’t need to directly click the “Begin” or “Edit” button.*

### **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 double right-arrows 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 7; note that text (like “INT” can also be entered)
  - o The “E-file” section is the final section to be worked. It must be done for **every** return, even if that return will be paper-filed. It is where bank account information is entered, and taxpayer demographic information is collected.
  - o Summary/Print opens the **Calculation Summary** (Form 1040) page. The dollar amounts on this page are links; clicking on a dollar amount will open the specific TaxSlayer page where data entry can be or was done for that line.
    - **Tip:** The **Calculation Summary** page, when initially opened, compresses the left navigation bar to a thin strip with only icons showing. Hovering the mouse over the icons that are visible will automatically expand the width of the navigation bar.
    - **Tip:** Click on the **Summary View** icon (green) to see an expandable view of the tax return, with links that similarly go to specific TaxSlayer pages. This may be easier than navigating Form 1040 and schedules 1 – 6.
  - o When clicked, three items on the left navigation bar - Basic Information, Federal Section, and Summary/Print –will show subsections; this is a faster way to get to those subsections.
- After information has been entered into a data entry page, a related item will appear in the left navigation bar when it is fully expanded vertically. For example, entering a 1099-R in TaxSlayer will cause “Retirement Income” to appear in the Income section of the left navigation bar.
- **Warning:** if you’re on a page where you’ve entered information, *don’t* click on a left navigation link after you’ve finished entering information. Instead, **click “Continue” to save what you’ve entered**, then (from the menu page that you’ll now be on) click to go elsewhere

### **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.
  - o This is a *toggle* – to return to English, click on this option, then, in the pop-up window, select “English”
- 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 9.)

- “Helpful Tools”, a pop-up window, has only three useful links:
  - “IRS Publications” opens a new browser window with the [IRS page to search for publications, instructions, and forms](#)
  - “Prior Year Comparison” compares the current tax year return to *any* prior year tax return which has been done at the same site. This is, currently, a very limited comparison, of ten summary lines on the tax return, not a complete line-by-line match.
    - **Note:** This is also available from the Calculation Summary (Summary/Print) page.
  - “Print or View Your Return” is a shortcut to display the PDF for the return. It is essentially the equivalent of clicking “Summary/Print” in the left navigation bar.
  - **Note:** The “User Manual” link is *not recommended* – the User Guide it links to is not tailored for Tax-Aide, and it is not updated. Pub 4012 is a better resource.
- “Quick File” is a way to build a list of pages that TaxSlayer will then display, sequentially, for entering information.
  - At most Tax-Aide sites, the majority of tax returns involve Carryforward from the prior year; in such cases, using Quick File is not useful. For that reason, and because Quick File functionality has not been fully developed, this manual omits any further discussion of this functionality.

### ***Getting to a Specific Page to Enter Information***

- **In the Federal Section**, a specific TaxSlayer page can be reached in four ways:
  - 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 five links, four leading to the **Social Security SSA-1099** page.
      - **Note: 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 a 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 say so.
      - [Pub 4012, starting on page O-6](#) has an eight-page list of forms and topics for navigating TaxSlayer, showing the search keyword for each. [The list in the NTTC version is longer.]
  - Click on a specific section along the left navigation bar (for example, in the Federal Section, select “Deductions”). Then click “Enter Myself” (you’ll see the menu, instead, if one or more menu items shows “Edit”). 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.*
  - Click on “Summary/Print”, in the left navigation bar, which generates a Form 1040; then click on any blue dollar figure (for example, on Line 1, “Wages, salaries, tips, etc.”) to go to the related TaxSlayer page (in this example, that would be the **W-2** page)
    - **Note:** After you complete the TaxSlayer input page, and click “Continue”, you’ll be returned to the 1040 View. [new, May 2018] (Sometimes returning requires two clicks on “Continue”: one for the input page, and one for the grid page, such as a list of W-2s.)
- **In the State Section**, the only way to navigate is by the menu system (click on the edit icon, then use “Enter Myself”)

## **ENTERING INFORMATION**

### ***Concepts***

- **Information entered on a page is NOT saved until you click “Continue”, or, if an alternative, “Save & Enter Another”** If your session times out before you do that, data entered on that page will not be saved.
- **In the State Section, you must click “Continue” or “Back” until you reach the top-level state menu.** At that point, TaxSlayer will let you exit the State Section.

## Online Procedures

- 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"
  - It's possible to use a **browser** action (back arrow) to go back one page in TaxSlayer.
- 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".
  - 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.
- 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.
  - **If you later change the information on the source page, that change does not replicate on other pages where information has been entered.**
    - For example, suppose that 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 when you changed the address on the **Personal Information** page.
- 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*.
  - 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 SSA-1099 has Medicare premiums and the taxpayer has a Schedule C business, enter the premiums under General Expenses in the Schedule C, and not on the Social Security input page.
  - If *somewhere else* is in the State Section, you should **delay** data entry until you've finished the Federal Section of the tax return.
  - 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 written note about information, and/or create an internal TaxSlayer note (see page 9), 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 an internal 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 internal 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 enters only that total into TaxSlayer, it is recommended that the calculation be documented in the taxpayer's records and/or typed into a note, depending on local policy.

## Specifics

- On a data entry page, fields marked with a red asterisk (\*) are *required* to have an entry; if "Continue" is clicked without such a field having an entry, TaxSlayer will display an error message.
- 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
  - 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 6<sup>th</sup> 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 In some cases, such as on the **Capital Gains Transaction page**, you can't enter February 29 until you select the year, so TaxSlayer can confirm that it was a leap year.
- Dollar amounts can be entered with or without cents
  - 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.
    - 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 the cents when adding the 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 You can tab to a button ("Begin" or "Continue", for example) and pressing [Enter] ([Return]) instead of clicking on the button.
    - You can tell when a button has been selected because its background color will turn black. [This is, unfortunately, not helpful for "Edit" buttons, whose background color already is black.]
  - 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**

### ***Return Tags***

- On the Office Client List page, and on the final page of the E-file section, 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
- In Practice Lab, TaxSlayer provides a very limited set of return tags. In production, Local Coordinators can add an desired return tags.
- 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 return 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 a standard way to record free-form information: *notes* (also referred to as "personal notes")
  - o After the Basic Information section of a return is completed, the name of the taxpayer will appear at the upper right of the screen.
  - o Clicking on the taxpayer name, or the downward-pointing symbol to its right, displays a 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 **do carry forward** to the next year's return.

## Initial Steps for a Tax Return

- o Carryforward notes are visible as part of the Carryforward process, at the beginning of the process of creating a new return.
  - If a Carryforward note is not applicable to the tax year being worked on (typically, 2018), then delete the note.
- As of March 6, 2018, creating or editing a note automatically includes the tax preparer's name, and a date/time stamp.
  - o That information is visible when the note is (re-)opened after initially saving it, **unless** the counselor re-opening the note is the person who created it.
  - o If the note is edited after being created, the note will show information about the *most recent* tax preparer who edited the note, and the date/time of that (most recent) edit, not when the note was created or previously edited.
- 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 that 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.

## 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.

# INITIAL STEPS FOR A TAX RETURN

## INTERVIEWING THE TAXPAYER

- **Note:** Some of this may have been done by a Client Facilitator (CF)
- Verify the taxpayer's Social Security number (see Social Security Number , page **13**) 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 the taxpayer or spouse need be present at that Tax Aide site during preparation of a return
- Explain the tax-preparation process, particularly responsibility of the client, and that a separate QR is done
- Confirm information provided by the taxpayer on the first three pages of the Intake Booklet.
  - o Complete the dependent information on page 1 as applicable
  - o Complete the health insurance information in Part VI on page 3 (annotate answers for reviewer)
    - If the taxpayer(s) and all dependents, if any, had full health coverage (MEC) for the entire year, it's not necessary to write in taxpayer and dependent names – just write a brief annotation that everyone was covered for the entire year.
  - o Confirm that the three consents have been responded to (consent to, and no consent); if not, discuss with the taxpayer



- o If not comfortable with the complexity of the return, talk to your LC about another counselor doing it.
- Ask the taxpayer to provide any information that they might have omitted from the Intake Booklet
  - 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 pages 2 and 3 of the Intake Booklet)
  - o **Compare information on Page 2 of the Intake Booklet to the documents provided by the taxpayer to determine that Page 2 is correct and complete and to identify missing taxpayer documents; correct Page 2 as needed.**
  - o Make sure that no item is out of scope; finding something later that is out of scope is a waste of time for both the preparer and the taxpayer
    - The most common problems are (a) income from rental property, (b) income from an oil and gas lease or other partnership (on a Schedule K-1 form), (c) *out-of-scope* codes in box 7 of a Form 1099-R, and (d) *out-of-scope* fields having a dollar amount on a Form 1099-INT or 1099-DIV. But there are scores of other circumstances that make a return *out-of-scope*. The rule of thumb is that if you see something unusual, research it immediately.
  - o Make sure that taxpayer isn't expecting any additional documentation, such as a Form 1099-INT, a Form 1099-DIV, or a broker's statement
  - o **An electronic version of a tax form** – a document displayed on a taxpayer's phone, for example – **is acceptable.**
    - A counselor has the option to refuse to use such a document, and to ask for a paper copy, if the electronic version is difficult to read.
    - If an electronic version of a tax document is used, it is recommended to note that, specifically, on the related page in the Intake Booklet.)
- Compare the dollar amounts on the 2017 return, if available, to boxes checked on Page 2 of the Intake Booklet, and the dollar amounts on the supporting documents for the 2018 return. Where there appear to be differences, ask the taxpayer about those differences.
- After you have a general idea of the taxpayer's income (from reviewing documents, or from entering information into TaxSlayer), **consider whether total income seems adequate to live on.**
  - o A taxpayer may be receiving SSI (not taxable, nor 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 taxpayer may actually be a dependent of another person or may have omitted taxable income. *If stated sources of income seem clearly inadequate, ask the taxpayer for more information.*
- Remember that Tax-Aide policy is that the interview should be complete *before* starting to create a return in TaxSlayer.
  - o For example, *out-of-scope* issues should be identified by doing a thorough interview, not when entering document information into TaxSlayer.

## **DETERMINING IF A RETURN SHOULD BE PREPARED**

- **Charts A through C of Pub 4012** (pages A-1 through A-3) covers who **must** file
  - o **Changed as of tax year 2018:**
    - The filing threshold for MFS returns, and for MFJ returns where the taxpayer and spouse were separated as of December 31, is **\$5**.
    - If filing MFJ, and either (a) the taxpayer did not live with the spouse on December 31, or (b) the spouse died during the tax year and two lived apart on the date of death, then the filing threshold is **\$1** of gross income.
      - "Lived apart" means in separate households, not a temporary absence, such as being in a hospital
  - o **CA process note:** A dependent may have no **federal** filing requirement but still be required to file a **CA** return. For 2018, if a dependent had earned income of more than \$4,440 (\$8,802 if filing MFJ, HoH, or QW), than the dependent must file a CA return (and a federal return should also be prepared, since the CA return uses federal information as its base).
- Chart D of Pub 4012 (page A-3) 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 To get an income-based **refundable** credit: federal EIC, American Opportunity Credit, etc.

## Initial Steps for a Tax Return

- If the taxpayer has no taxable income – that is, Line 7, adjusted gross income, is zero or negative, but the taxpayer **needs** a tax return for legal or governmental reasons, or **wants** to file for any reason, including concerns about identity theft concerns, then an adjustment is required so that the return can be e-filed: go to the **Other Income** page (Income > Other Income > Other Income Not Reported Elsewhere), enter the description “To enable e-filing”, and enter an amount of \$1.
- If a taxpayer does not file a return, record the taxpayer 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 also be required to file (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) of the dependents
  - o Prior to tax year 2018, if a child under the age of 18, or under the age of 24 and a full-time student, had more than \$2,100 of unearned income, the child was likely subject to the “Kiddie Tax”, and the dependent’s federal return was *out-of-scope*. [Unearned income includes *all taxable income other than earned income*: taxable interest, pension and annuity income, etc. “Unearned income” also includes taxable scholarship and fellowship grants not reported on a Form W-2.]
  - o Beginning with the 2018 tax year, because of changes in tax law, a dependent’s return is *in-scope* even if the \$2,100 limit has been exceeded.
    - **CA policy:** Because California rules do not conform with this 2018 federal tax law change, the dependent’s federal tax return remains *out-of-scope* if the \$2,100 limit is exceeded, because the state return is *out-of-scope*. The taxpayer needs to go to a paid tax preparer or use tax-preparation software in order to file the dependent’s return.
      - CA requires **CA Form 3800** to be prepared in the case of a “Kiddie Tax”. That form is *out-of-scope*.

## 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 taxpayer, sort all supporting documents by type, into the following sequence, if a Client Facilitator has not already done this. (The order follows the Intake Booklet.)

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
<b>Income</b>	
W-2s – wages	<u>W-2</u> [underlined, shaded: <u>type that text into the search box</u> ]
1098-T Taxable Scholarship	Income > Other Income > Other Compensation > <b>Scholarships and Grants</b> ( <i>do not enter if fully offset by educational expenses</i> )
1099-INT – interest	<b>Interest and Dividend Income</b>
1099-DIV – dividends	<b>Interest and Dividend Income</b>
1099-G – State Tax Refund (postcard)	Income > State and Local Refunds (1099-G Box 2) > <b>State Refund Worksheet</b> (search box: “Form <u>1099-G</u> Box 2”)
Alimony received (if documented, which is not required)	<b>Alimony Received</b>
1099-MISC	<b>Form 1099-MISC</b>
1099-B – sale of securities	<b>Schedule D Capital Gains</b> 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 <b>Schedule A - Miscellaneous Deductions</b></i>
1099-R	<b>Form 1099-R</b>
RRB 1099-R (green form)	<b>RRB-1099-R</b>
1099-G Unemployment benefits	<b>Unemployment Compensation</b>
SSA-1099 Social Security	<b>Social Security SSA-1099</b>
RRB-1099 (blue form) Railroad Retirement tier 1	<b>Social Security SSA-1099</b>
W-2G Gambling Winnings	<b>W-2G Gambling Winning</b>
Schedule K-1 ( <i>but verify there are no out-of-scope items</i> )	<b>Schedule K-1</b>
1099-LTC	<b>Form 8853 - Medical Savings Account</b> (scroll down)
<b>Expenses</b>	

Supporting Document or Form	TaxSlayer page (or menu) (in Federal Section, unless otherwise specified)
Alimony paid - canceled checks	<b>Alimony Paid</b>
IRA contributions	<b>IRA Deduction</b>
1098-T Tuition Statement	<b>Form 8863 - Educational Credit</b>
Medical costs (list), miles (number)	<b>Schedule A - Medical Deductions</b>
1098 Mortgage interest	Deductions > Itemized Deductions > Mortgage Interest and Expenses (leads to <b>Schedule A Interest</b> ) (search box: "Home <b>M</b> ortgage Interest")
Property tax bill, car registration or registration payment	Deductions > Itemized Deductions > Taxes You Paid (leads to <b>Schedule A - Taxes You Paid</b> ) (search box: "Personal <b>P</b> roperty Deduction)
Charitable donations (list), volunteer miles (number)	<b>Charity Cash Contributions</b>
1098-E or lender statement for student loan interest	<b>Student Loan Interest Deduction</b>
<b>Life Events</b>	
1099-C Cancellation of Debt (only non-business credit card debt is in-scope)	<b>Form 1099-C</b>
1099-S Sale of home	<b>Schedule D Capital Gains</b> menu
<b>Health Care Coverage</b>	
1095-A Health Insurance Marketplace Statement	Health Insurance section
Marketplace Exemption Certificate Number	Health Insurance section

- **Note:** [Pub 4012, starting on page O-6](#), has an eight-page list of forms and topics for navigating TaxSlayer, showing the search keyword for each, the respective 1040 line, and how to navigate to the related data entry page in the Federal Section of TaxSlayer. That list is particularly helpful for items not in the table above. A far more comprehensive list (68 pages, for navigating the Federal Section) can be found on the North Carolina Tax-Aide website ([taxvolunteers.com/](http://taxvolunteers.com/)); click on "QuickGuide for TaxSlayer for Other States"

## **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 B-4](#)

### ***Taxpayer Profile***

- If a taxpayer profile other than "Basic (no Profile)" is selected, TaxSlayer will, *after* the Basic Information section has been completed, sequentially open each TaxSlayer page in that profile, in the sequence listed in the profile, for you to enter information
- The majority of tax returns involve Carryforward from the prior year; in such cases, a taxpayer profile is not useful. For that reason, and because the related TaxSlayer function, Quick File, has not been fully developed, this manual omits any further discussion of the taxpayer profile functionality.

### ***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 appear on the 2018 return as the primary taxpayer, regardless of whether that person was listed first on the 2017 return.
  - o **Note:** If Carryforward data is available from the prior year, and the deceased taxpayer was the primary taxpayer in that prior year, consider entering the SSN of the *deceased* taxpayer when starting a return, and then changing the information on the Filing Status page so that the surviving taxpayer is listed first. This option is desirable when the joint return has a lot of Carryforward data that otherwise would be lost.
    - If you choose this option, you must change names and Social Security numbers on the **Personal Information** page: the survivor becomes the primary taxpayer (is listed first) and the deceased person is listed as the spouse.
    - For this option, you will also need to switch identification on various pages ("Whose W-2 is this?"; "Recipient" for 1099-Rs, and so on), as you enter dollar information.
- The following are acceptable by Tax-Aide for Social Security number verification when used together with a government-issued photo ID, per [Pub 4299, Privacy, Confidentiality, and Civil Rights - A Public Trust](#) and the AARP Tax-Aide Policy and Procedures Manual (PPM)
  - o **Last year's prepared return** (paragraph 6.6 of PPM)
  - o Social Security card (a copy is acceptable)

## Initial Steps for a Tax Return

- **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
- Social Security Benefit Statement, Form SSA-1099 or RRB-1099
  - **Note:** SSA documents which show only a partial (truncated) SSN (for example, \*\*\*-\*\*-1234) **are** acceptable for Social Security number verification **if** the number is consistent with other taxpayer documents, and the taxpayer presents an acceptable government-issued photo ID.
- A letter from the SSA showing name and Social Security number, or other documents from the SSA.
- A Medicare card that includes the letter “A” after the SSN
  - **Note:** All old-style Medicare cards with SSNs are supposed to be replaced by new cards that don’t include a SSN, by April 20, 2019.
- An IRS letter or card assigning an ITIN
- If the taxpayer has an Individual Taxpayer Identification Number (ITIN), as discussed on page **133** (a nine-digit number beginning with 9 and having a 7 or 8 as the fourth digit):
  - The taxpayer should bring the IRS letter which assigned their ITIN
  - The counselor should check tax documents, such as Form W-2s, to make sure that the taxpayer’s name is correct (the SSN will be incorrect)
    - If one or more tax documents have an incorrect **name** [the IRS matches on the first four characters of the last name], the return must be paper-filed. After the Basic Information section is completed, create a note (see page **9**) saying that, and why
    - Similarly, if a form has an incorrect SSN or ITIN, the return must be paper-filed
    - The taxpayer does have the alternative, rather than paper-filing, of contacting the payer to get a corrected tax form, and then to return with that corrected form. If the taxpayer wants to do this, complete the return as much as possible, then mark it with a note and a return tag indicating that more information (the corrected form) is needed.
  - ITINs with middle digits of 70 through 82 (for example, 9NN-78-NNNN) *either expired* as of December 31, 2016 or December 31, 2017, or *will expire* as of December 31, 2018. If the taxpayer has such an ITIN, see the section Individual Taxpayer Identification Number (ITIN) on page **133**
- If the taxpayer has neither an SSN nor a valid ITIN, the taxpayer must file a Form W-7 with the tax return
  - 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
  - The return must be paper-filed. After the Basic Information section is completed, create a note (page **9**) saying that, and why
  - 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](https://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.

## Carryforward 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
  - For 2018 tax returns, Carryforward will be possible from a **2017 return** that was done at **any Tax-Aide site that remained active for the 2018 tax year**. There are eight more carryforward items for the 2018 tax return, compared to the carryforward from 2016 tax returns into 2017 tax returns.
  - **Before** clicking “Continue”, to accept the default of carrying forward **all** 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

- **Warning:** If the prior year return was MFJ, but the current year return is not (most commonly because the spouse died during the prior year), *make sure that all Carryforward items for the person no longer on the return are removed before telling TaxSlayer to continue.* If you fail to do this, the only way to remove an erroneous spousal Carryforward item, such as a 1099-R, is **to add the spouse back to the return, delete the item, then delete the spouse.**
- Similarly, review the carryforward notes – delete those that are not relevant to the 2018 return.
  - When in doubt, leave the note, but edit it to make clear that it is from 2017
- **Important:** TaxSlayer automatically assumes that if the taxpayer got a state refund in 2017, then it should offer the option of starting a state tax refund worksheet for the 2018 return. *This assumption is usually wrong – in most cases, a state refund is **not** taxable.*
  - **Delete** the Carryforward item for the state refund if either of the following are true: (1) the taxpayer did not itemize on the 2017 return; or (2) the taxpayer did itemize, but used general sales tax (Line 5b on Schedule A) rather than income taxes (Line 5a)

## OPENING AN EXISTING RETURN

- You can open a previously created return, 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”).
  - 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.)
    - **Note:** Sometimes a LC allow most counselors to see only the returns that they created. If so, and if accepted returns are moved to an “archive” preparer name (“Z ZZSITE”, for example), then the list will be quite short.
  - You can sort the list by clicking on a column name, such as “STATUS” or “LAST”.
- If the list of returns is more than one page, you can use the “Search Client list” 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).
  - **Note:** The search also includes the “PREPARER” column
- When you find the return you want, click the “Select” button. TaxSlayer will open the return at the Summary/Print page, displaying “Calculating Return”
  - You can stop the calculating by clicking on either “Basic Information” or “Federal Section” in the left navigation bar
- After it finishes calculating, TaxSlayer displays the The **Calculation Summary** page for the return
  - The **Calculation Summary** page, when initially opened, compresses the left navigation bar to a thin strip with only icons showing. You can expand the left navigation bar by clicking the double right-arrows at the top, but you can also just *click on an icon* - for example, click the stethoscope icon to go to the Health Insurance section.
  - Alternatively, you can select a line in the Form 1040, or one of the six supporting schedules, for which you want to enter information or review what was entered; click on the blue dollar figure to go to the relevant page.
  - **New:** If you click the “Go to Last Checkpoint” button, TaxSlayer will go to the last page that was accessed in the return prior to reopening it (not including the **Calculation Summary** page itself).
- **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.

## BASIC INFORMATION

- [Pub 4012, starting on page B-10](#) describes in detail how the Basic Information section of a return should be completed
- Complete the required basic information using the first page of the taxpayer-completed Intake Booklet, plus last year’s return, if available. Information about the taxpayer(s) and any dependents then flows from the Basic Information section to other pages in TaxSlayer.
  - [Pub 4012, starting on page B-3](#) has a “Job Aide” that explains the various fields on the first three pages of the Intake Booklet.
- TaxSlayer won’t allow work on other parts of the return until the Basic Information section is completed

## **FILING STATUS**

- **Note:** If person listed as the *taxpayer* (as opposed to the *spouse*) is a nonresident alien, as defined in [Pub 4012, page L-1](#), the return is *out-of-scope*.
- Click to select the correct filing status. If you are unsure, the best options are:
  - [Pub 4012, page B-6](#) is a six-question interview
  - AARP Foundation's laminated "tri-fold" resource tool has a decision tree for determining filing status, as well as a page of "Helpful Definitions". The decision tree is especially helpful for Head of Household and Qualifying Widow(er) statuses. [Search at the Portal for "Qualifying Child or Relative Resource Tool"]
  - Online, you can use the IRS "Interactive Tax Assistant", at [irs.gov/help/ita](https://irs.gov/help/ita) (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 using the Filing Status Wizard (blue button, right side). **Because TaxSlayer does not guarantee that the wizard covers all circumstances and that the result is always correct, using this wizard is not recommended.**
- **Warning:** If you change the filing status in a return, *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 before beginning the State Section.

### **Married**

- An individual is "married" if they are married under domestic or foreign law as of December 31 of the tax year
  - 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. (However, a surviving taxpayer can file as MFJ if their spouse has died during the tax year.)
    - 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 legal 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 either the taxpayer or spouse is geographically unavailable, the return is **still in scope** and can be prepared, but must be done as a **paper return**.
  - The taxpayer who is being helped is responsible for getting the signature of his/her spouse.
- 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.
- **CA policy:** Tax returns for couples who are registered domestic partners (RDP) in CA are *out-of-scope*.
  - If the couple wants to file MFJ on their *state* return, their legal status means that, in CA, a community property state, they should be doing income-splitting on their federal returns
  - If the couple, or one of the couple, wants to file MFS on the state return (the only option other than MFJ), that increases the complexity beyond what tax preparers are trained for.

### **Married Filing Separately**

- MFJ is *almost always* a better filing status than MFS, in terms of taxes owed, but a married taxpayer may be unable or unwilling to file MFJ.
- If the taxpayer has a court decree for legal separation, at year-end, the filing status must be either Single or HoH; MFS is *not* an option.
- 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 "Determination of Filing Status – Decision Tree" page of the laminated tri-fold [June 2018; available at the Portal as "Qualifying Child or Relative Resource Tool"]

- **CA policy:** CA state coordinators will decide if the districts within their state can or cannot prepare MFS returns; state coordinators have the discretion to not allow such returns within their split-state.
  - For tax year 2018, all districts in **CA1** will do MFS returns, if all criteria (below) are met; all districts in **CA5** will not do MFS returns; and in districts in **CA2, CA3, and CA4**, District Coordinators will decide whether their districts will do MFS returns or not, for returns where all criteria below are met.
    - **Note: in CA4 districts that do MFS returns**, such returns may only be prepared by a counselor certified by the CA4 Training Specialist (TRS).
- **CA policy:** In California, a community property state, Tax-Aide will prepare a return as MFS **ONLY** when all 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
  - The taxpayer and spouse have not communicated about, or agreed to, an allocation of any community income.
  - If the taxpayer has earned income, the taxpayer and spouse did not transfer, directly or indirectly, any of this earned income before the end of the year (do not take into account transfers satisfying child support obligations or transfers of under \$100). The taxpayer must report all earned income on his/her return.
  - The taxpayer reports all of his/her social security payments in full on the tax return, and also reports all of his/her 1099R payments in full on the tax return.
  - The taxpayer is willing to report, and does report, both separate (his/her) and community property interest, dividends, and capital gains on his/her return, with nothing allocated to his/her spouse.
  - Preparation of the return is approved by the Local Coordinator
- Filing as MFS requires the completion of Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property State. *It is recommended that you do this before entering any income.*
  - Go to the **Married Filing Separately Allocations (Form 8958)** page [Federal > Miscellaneous Forms]
    - If you go to this form *before* entering any income information into TaxSlayer, you do not need to allocate any income to the spouse
    - **[Workaround]** If you go to this form *after* entering one or more income items into TaxSlayer, allocate \$1 to the spouse for each of those items, in order for TaxSlayer to allow the form to be completed.

### 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 all five tests shown on the right side of the “Determination of Filing Status – Decision Tree” page of the laminated tri-fold [**June 2018**; available at the Portal as “Qualifying Child or Relative Resource Tool”].
  - **CA policy:** Because CA is a community property state, a HoH return is **out-of-scope** for a married taxpayer unless that taxpayer has lived apart from his/her spouse *for the entire year*, and is also **out-of-scope** if there was **any** commingling of funds during the year.
    - **Note: in CA5 only**, a taxpayer who is legally married must file as MFJ or the return is **out-of-scope**.
- If the filing status is marked as “Single”, and an entry is made in TaxSlayer’s Dependent section, TaxSlayer will then ask “You’ve selected a Single filing status but also added a dependent. Would you like to change your filing status to Head of Household?”
  - *Do not change the filing status* simply because TaxSlayer suggests this option. The “Single” status should have been selected *after* determining that no other person listed on page 1 of the Intake Booklet was a qualifying person. If that determination wasn’t made, then see the discussion at the beginning of the “Filing Status” section.
- **Note for CA state returns:** 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
  - No information flows from the Federal Section to this state form
  - The page for entering information is at State Section > Basic Information > **Complete California Form 3532 (Head of Household)**.
    - In the Qualifying Persons Last Name field, it’s not possible to enter a hyphen. That’s because the CA return, unlike the federal return, won’t accept this character. If the dependent’s last name does include a hyphen, simply omit it; do not replace it with a space.
    - 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.

## Basic Information

- **[Workaround]** If, on the first page of the E-file section, TaxSlayer says that there is an error in how this form was completed, review all data and make corrections as needed. If you don't see any errors, or TaxSlayer doesn't change the error message after you fix a mistake, then
  - Save and exit the return, then reopen it, and determine if the error message has gone away
  - If the error message persists, delete the entire CA state section, and create it again, being careful to correctly enter all required information into the TaxSlayer page for the Form 3552, as well as redoing any other state-related pages in which you entered information
- **Note for CA state returns:** If the taxpayer cannot file as HoH in 2018 because the qualifying relative for HoH died in 2016 or 2017, **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, lines 43-45 section, on page **107**.
  - **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)**

- QW status preserves the benefits of filing as MFJ.
- If the taxpayer's spouse died in 2016 or 2017, the taxpayer did not remarry by December 31, 2018, and the taxpayer has a child or stepchild for whom the taxpayer *can* or *might have been able to* claim a dependent exemption for the tax year, the taxpayer can file as QW in 2018.
  - A child qualifies as a dependent if he/she *would have been* a dependent except (a) the child's income is too high; (b) the child is filing a MFJ return, or (c) the *taxpayer* is a dependent of someone else.
- QW status also requires that:
  - That child must have lived in the taxpayer's home, except for temporary absences, for the entire year
  - The taxpayer *did, or could have* filed as MFJ for the year of the spouse's death
  - The taxpayer paid more than half the cost of keeping up their home during the year.
- If the taxpayer appears to meet the above criteria, use the resource documents listed at the top of the Filing Status section (page **16**) to confirm eligibility.

### **Single**

- As noted above, a person who is married at year end, and has no separation agreement in place by that time, can file as MFJ (with his/her spouse); as HoH, with a qualifying dependent and if meeting all other requirements; or as MFS. What that person **cannot** legally do is file as Single.
- **CA policy:** Because CA is a community property state, the return of a taxpayer who becomes divorced or legally separated *during* the tax year, and wants to file as single, is **out-of-scope** if the taxpayer did not *live apart from his/her spouse for the entire year*, and is also **out-of-scope** if there was **any** commingling of funds.

## **PERSONAL INFORMATION**

### **Names**

- When the return is e-filed, the IRS checks only the first four characters of the last name against their records
- The taxpayer's first name(s), initial, and last name, in TaxSlayer, should be as shown on their Social Security card, prior year tax return, Social Security statement, etc. A hyphen can be entered only as part of a *last* name; for a first name, use a blank space rather than a hyphen.
  - 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 **9**)
    - 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 **9**)
  - If no prior year return is available, then consider the following:
    - Examples of how to determine the last name of a taxpayer are in Pub 4012, starting on **page B-10**
    - 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



- o It is good practice to enter questionable last names as shown on the Social Security card or ITIN letter into a note (see page 9), for use by the ERO in case the last name causes an e-file reject
- 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.
- **Note for CA state returns:** 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)
- **Note for CA state returns:** If the last name of the taxpayer includes a hyphen, TaxSlayer will remove the hyphen on the CA return, to prevent the CA return from being rejected.

### ***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 2018 (that is, was born between 1947 and 1950), and has Form 1099-R income from an IRA, 401k, or similar source, review RMD requirements with the taxpayer.
  - o 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.
  - o More information about the RMD requirements and penalties can be found below, in the 5329 Part IX – RMD Not Taken section, on page 91
- The age of the taxpayer as of December 31 of the tax year is shown on the **Calculation Summary** (Form 1040) page (select Summary/Print on the left navigation menu), which also shows the age of the spouse (if any) and each dependent (if any).

### ***Spouse Social Security Number***

- See Starting a New Return, page 13, for acceptable means of SSN or ITIN verification for a spouse
  - o **Note:** ITINs with middle digits of 70, 71, 72, 78, 79, and 80 (for example, 9NN-78-NNNN) are *expired* as of either December 31, 2016, or December 31, 2017. If the taxpayer has such an ITIN, see the section Individual Taxpayer Identification Number (ITIN) on page 133.
- For **MFS returns**, if in scope, where the spouse's SSN or ITIN is not known, enter 111-00-1111. The return cannot be e-filed; a paper return **must** be prepared; write "unknown" wherever the spouse's SSN appears on Form 1040 and related forms.
  - o After the Basic Information section is completed, create a note (page 9) saying that the return must be paper-filed, and why
- For **MFJ returns**, if the spouse has neither an SSN nor a valid ITIN, there are two possibilities – (1) the spouse is a nonresident alien **and** the taxpayer doesn't want to apply for an ITIN for the spouse, or (2) the taxpayer does want to file a Form W-7 with the tax return, in order to apply for an ITIN for the spouse
  - o For a nonresident alien, not applying for an ITIN, enter 111-00-1111 for the Social Security number. Otherwise, to start the process for applying for an ITIN, enter 000-00-0000; after you click "Continue", TaxSlayer will replace the SSN field with a note saying "This return contains a Form W-7, Application for an ITIN for this Spouse."
  - o The return **must** be paper-filed; after the Basic Information section is completed, create a note (page 9) saying that, and why
  - o If you entered 000-00-0000, 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](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.

### ***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 (fifth solid bulleted item) for more entries for a deceased taxpayer or spouse.

### **Other Personal Information**

- [New] Do not check “Check here if the Taxpayer can be **claimed as a dependent** on someone else's return” if **both** of the following are true, because if both are true, the taxpayer *can* claim others as dependents. [Checking the box prevents the taxpayer from being able to claim any dependents.]
  - The person who *could* claim the taxpayer as a dependent *is not required to file a tax return*. (For example, most of that person’s income was from Social Security.)
  - The person who *could* claim the taxpayer as a dependent either (a) does not file a tax return, or (b) does file a tax return, but only to claim a refund of estimated or withheld taxes. [Such a return should *not* list the taxpayer as a dependent, to avoid complications with the IRS.]
- **Note for CA state returns:** If you checked that the taxpayer (or, for a MFJ return, the spouse) can be claimed as a dependent on someone else’s return, you **do not** need to enter that information in the State Section; TaxSlayer automatically makes the appropriate adjustments on CA return.
- 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.
  - Student status can be critical in determining if someone is a qualifying child
- Determine if the taxpayer and/or the spouse qualify as **blind**
  - If so check the appropriate boxes
  - 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
  - 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 taxpayers to provide a death certificate.
  - **Do not add “DECD”** in a name field.
  - Advise the taxpayer that processing time by the IRS will be longer than normal for deceased taxpayer returns.
  - If the deceased taxpayer had a pension without survivor benefits, any unrecovered employee pension contributions may be reported on line 16 of Schedule A on the final tax return for that taxpayer. See [Pub 575](#) for details.
  - If the return is filed by *other than* a surviving spouse, there are additional requirements **if a refund is due**. Specifically, the taxpayer must either (1) if e-filing, **include a Form 1310**, Statement of Person Claiming Refund Due a Deceased Taxpayer, in the return, and separately mail that form, signed, to the IRS, with any required documentation as described in the [instructions for that form](#)., or (2) if paper-filing the return, *either* (a) attach a Form 1310 and any required documentation for that form, *or* (b) attach a court certificate showing appointment of the taxpayer as the personal representative for the estate.
    - Regardless of whether option (1) or option (2) is chosen, create a note (per page 9) saying what is being done, and why.
    - If e-filing, go to the page **Form 1310 for Refund Due a Deceased Taxpayer** [Federal Section > Miscellaneous Forms > Claim a Refund Due to a Deceased Taxpayer], and complete that form.
      - Print an extra copy of the Form 1310 for the taxpayer to sign and mail to the IRS
    - **Note for CA state returns:** For this situation (return not filed by a surviving spouse, **and** a refund claimed), either Form 1310, with any appropriate supporting documents, or certified copies of the letters of administration or letters of testamentary, must be submitted with the state return, which should be **paper-filed**.
  - **Note for CA state returns:** Additional information concerning a deceased taxpayer must always be entered in the State Section. This can be done after finishing the Basic Information section.
    - Go to the **Complete if the Taxpayer or Spouse listed on the return is deceased** page [State Section > Basic Information > Deceased Taxpayer or Spouse]
    - 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, even though the box is labeled “Guardian\Executor”
    - Complete the decedent representative information. For a MFJ return, this is normally the surviving spouse. [And yes, it does seem odd to be entering the same name twice on the same form

- If the taxpayer has indicated that they want to direct an amount to the **Presidential Election Campaign Fund** (in the Intake Booklet, page 3, Part VII, question 2), then check the appropriate box(s).
  - 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 they go to a paid tax preparer or prepare their own return using tax-preparation software.

### Address

- The address entered in TaxSlayer is the **current mailing** address of the taxpayer, not the address where the taxpayer lived during the tax year, nor the address where the taxpayer currently lives *if* the taxpayer has his/her mail sent to another address.
- In the “Address (Number and Street)” field, fractions are allowed. This is also the field where a post office box or private mail box (“PMB”) would be entered; the PMB goes at the *end* of the field
- 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 manually 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
- **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 taxpayer address on that page.
- **Note for CA state returns:** If the address has changed from that on the prior year tax return, that fact should be in the State Section (Basic Information > Additional Personal Information)

### Phone Number

- *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 provide 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 9).
- 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.
- Page 1 of the Intake Booklet 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

- There are several good resources for determining if someone is a qualifying child or qualifying relative, including whether that person can be used to claim EIC:
  - AARP Foundation’s “Determining Tax Benefits for a Qualifying Child or Qualifying Relative [laminated tri-fold, **June 2018**, form D19929; search at the Portal for “Qualifying Child or Relative Resource Tool”]
    - **Note:** for those who have the laminated 2017 version, corrections to that version are available (print, cut, and tape).
  - [Pub 4012, Tab C](#)
  - The Dependent Qualification Calculator at [cotaxaide.org/tools](http://cotaxaide.org/tools)
  - The IRS “Interactive Tax Assistant”, at [irs.gov/help/ita](http://irs.gov/help/ita) (select “Who Can I Claim as a Dependent?”)
  - **Note:** Starting with the 2018 tax year, the term “dependent” essentially means a person who qualifies the taxpayer for either the child tax credit (up to \$2000) or the credit for other dependents (\$500).

### Entering Information into TaxSlayer

- The “Dependents/Qualifying Persons” section of TaxSlayer is where two types of people are entered:
  - Living in the taxpayer’s household, and either having a relationship (parent, daughter, etc.) or getting more than half of his/her support from the taxpayer – those who meet the support test (if a QC, that person doesn’t provide more than half his/her support; if a QR, the taxpayer provided more than half the support)

## Basic Information

- Not living in the taxpayer's household, but having a relationship (parent, son, etc.) and being supported by the taxpayer.
- 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 and qualifying children in the same sequence as on Page 1 of the Intake Booklet.
- Checking the box labeled "Check box 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.
  - Such a return **must be paper-filed** - create a note (page 9) 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://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 *step-parent*, use "Parent".
    - **Note:** A parent of a taxpayer's step-parent is considered unrelated.
  - For a *great-grandchild*, use "Grandchild".
  - For a *great-niece* (or grandniece), and for a great-nephew (or grandnephew), the entry in TaxSlayer **depends on whether the person is a qualifying child**
    - If the person meets the criteria to be a qualifying child, use "Niece" or "Nephew".
    - Otherwise, use "None"; the person is considered to be unrelated
  - 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 legal 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 him/her as a qualifying child
- Number of months the dependent lived in the home – choose from the drop-down list
  - **[Workaround]** If a child lived with the taxpayer for less than 6 months, the child isn't eligible for CTC - but TaxSlayer doesn't recognize this. For such cases, select "Other reasons" for the number of months that the child resided in the taxpayer's home, rather than 1, 2, 3, 4, or 5, in order for TaxSlayer to recognize this child as a qualifying relative.
  - For dependents who were born or died during the tax year, select "12".
  - If the individual is a **qualifying relative** who did NOT live in the taxpayer's home for more than half the year (for example, a son or daughter over the age of 24, living elsewhere all year), select "Other Reasons", rather than a number.
  - If the taxpayer is a noncustodial parent who has the right to claim a dependent exemption for the **qualifying child** of the custodial parent, and has the required Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, **choose "0" for months**.
    - Click "Continue" twice to get to a checkbox to indicate this.
    - ***Tax-Aide no longer sends a copy of the Form 8332 to the IRS. Inform the taxpayer that they must retain that form for their records, and provide it to the IRS upon request.***
- In the "Please answer the following" section:
  - "over age 18" means that the dependent was at least 19 years old as of December 31 of the tax year
  - 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.
    - If the dependent is age 24 or older as of December 31 of the tax year, checking the box for a full-time student makes no difference for tax purposes
  - An **eligible educational institution** is an accredited postsecondary institution.
    - If there is any doubt as to accreditation, check the U.S. Department of Education database at [ope.ed.gov/dapip/](https://ope.ed.gov/dapip/)

- Enrollment in high school *does meet the criteria for being a full-time student*
- o “Check if this qualifying child is NOT YOUR DEPENDENT” should be checked if the person does not pass all the tests to be a dependent; for example, if that person provided more than half of his/her support for the year. (For more information about those tests, see [page C-1 of Pub 4012](#).)
- Checking this box means that the person **will not be listed in the “Dependents” section of Form 1040**. It also prevents the taxpayer from getting the child tax credit or the credit for other dependents for that person.
- o If the dependent is 16 years or older (for the 2018 return, this would mean being born in the year 2002 or earlier), **ask** the taxpayer if the dependent is married or not; do not assume unmarried status
- o The final checkbox, regarding a [Multiple Support Declaration, Form 2120](#), is relevant only to **qualifying relatives**, not to qualifying children, and should be checked *only if the taxpayer did not pay over half of the dependent’s support but still wants to claim the dependent as a qualifying relative*.
  - To make such a claim, no other person can have provided more than 50% support for the dependent.
- Taxpayers who are divorced or legally separated at the end of the tax year cannot claim their (former) spouse as a dependent, even if that former spouse resides with the taxpayer, and even if the taxpayer provides more than half of the support for the former spouse.

### **Child Adoption**

- Taxpayers who adopted a child in 2018 (in the Intake Booklet, on Page 2, Part V, question 3, “Adopt 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.

### **Federal and State Differences**

- **CA process note:** It is possible to **not claim a dependent on the federal return, but to do so on the state return, and to file both electronically**. This might be done in order for a dependent to claim an education credit, or because a taxpayer declines to claim a dependent on the federal return in order to avoid the ACA penalty for lack of insurance for that dependent.
  - o To file a return where a dependent is not claimed on the federal Form 1040, but is claimed on the state Form 540:
    - Prepare the federal return and set the CA return to *paper*. After quality review, print the federal return for the taxpayer.
      - If the dependent is entered on the return, check two boxes – “Check if this qualifying child is NOT YOUR DEPENDENT”, and “Check if you wish NOT to claim this dependent for Earned Income Credit purposes,” so that the listed dependent doesn’t affect the federal return
    - Transmit the federal return.
    - Modify the federal return to add the dependent [if already on the return, uncheck the two boxes]; *add an electronic note about what you’ve doing*; and – after quality review – provide the taxpayer with the printed state return.
    - On the **E-File** page, check the “Send State Only” box, change the state return type to E-File, and transmit the state return.

## **INTAKE BOOKLET**

Page 1 of the Intake Booklet 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 IRS-related identity theft (a fraudulent tax return has been filed using their SSN or ITIN), and has previously worked with the IRS to fix this, the IRS will issue a CP01A letter with an IP PIN to be used for filing a return. The IRS will provide the taxpayer with a new IP PIN each year, prior to the start of the tax season.
  - o The taxpayer should have checked “Yes” for box 11 of Page 1 of the Intake Booklet, “Been a victim of identity theft?”
- Enter the PIN on the **IRS Identity Protection Pin** page. [Federal Section > Miscellaneous Forms > IRS Identification Pin]

## Federal Section - Income

- o For a MFJ return, the IP PIN will normally be for the taxpayer but not the spouse. *Assuming that it is only for the taxpayer, don't enter it again for the spouse.*
- If the taxpayer received an IP PIN but cannot find it, there are two options:
  - o The taxpayer can call the IRS ID Theft hotline, 800-908-4490, to get the IP PIN reissued. The IRS will mail the IP PIN to the taxpayer's address of record within 21 days.
  - o The taxpayer can go online (see [irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin](https://irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin)) and retrieve their the IP PIN
    - In addition to personal information such as date of birth, this requires the taxpayer to have (a) an email address, (b) a credit card or an account number from a car or home loan, and (c) a cell phone registered in their name.
- If the taxpayer is unable to retrieve or get a new IP PIN by the end of the tax filing season, or doesn't want to wait to get a mailed replacement, then the return must be paper-filed (create a note - page 9 - saying that)
- More information can be found on [page P-2 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", on Page 1 of the Intake Booklet, 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 [90](#)

**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 that is underlined is the text that you can 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 1 - WAGES, SALARIES, AND TIPS**

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

- [Pages D-4 through D-6 of Pub 4012](#) have information on how to enter Form W-2 information into TaxSlayer

#### **W-2 Form - Verification Code (Box 9)**

- A Verification Code will appear on roughly a quarter of the Form W-2s issued for 2018, in box 9 of the paper Form W-2, on copies B and C. The code consists of four groups of four alphanumeric characters, separated by hyphens, as, for example, AF11-BC22-DE33-4568.
  - o If you see such a code, enter it into box 9 on the TaxSlayer **W-2** page
  - o For 2018 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 15<sup>th</sup> and has attempted to get a copy from their employer and failed, they can contact the IRS for possible assistance (800-829-1040, or in-person visit)
- Alternatively, 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
  - o Start a **W-2** page, as usual, but select "This is a substitute W-2"
  - o Fill out the rest of the TaxSlayer **W-2** page as usual, as discussed below
    - **[Workaround]** If the employer EIN is unknown (a prior year W-2 from the employer isn't available), enter a temporary EIN (for example, 12-1212121) so that TaxSlayer will not generate an error message. Then, when the Form 4852, Substitute for Form W-2, Wage and Tax Statement, is printed as part of the return, line through the EIN on that form.
    - **CA process note:** Use "000000" or "999999" for the CA state EIN, if not known
  - o When you click "Continue", TaxSlayer will open a page to collect additional information that goes on a Form 4852.

- If the employee has an ITIN, do *not* enter a SSN.
- When the return is printed, it will include the Form 4852, which must be signed by the taxpayer and mailed with the federal return.
- **The return must be paper-filed** - create a note (page 9) saying that.
  - **Note:** The taxpayer must sign Form 4852, automatically printed by TaxSlayer, which goes with the paper federal return.
  - **Note for CA state returns:** The taxpayer must also sign CA Form 3525, which goes with the paper CA return.
- The taxpayer may need to follow up with the Social Security Administration to get credit for FICA taxes paid.
  - The taxpayer should wait until they get a SSA statement that includes the tax year for which the return is being prepared before contacting SSA.
  - If the SSA statement shows that the employer failed to report wages to the SSA, the taxpayer should provide the SAA with a copy of the Form 4852.
- If the taxpayer later gets a W-2 with different information on it, the taxpayer may need to amend the tax return

### **W-2 Form - 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 section, below.
  - The return should still be e-filed

### **W-2 Form - Employee SSN**

- 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
  - If TaxSlayer has an ITIN for the employee, on the **Personal Information** page, then it will automatically ask for “ITIN SSN” information on any **W-2** page for that employee. Type in the Social Security number shown on the paper Form W-2
  - This discrepancy does **not** prevent the return from being e-filed.
- 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 9) 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 – Employee Address**

- If the employee address on the paper Form W-2 doesn’t match what TaxSlayer fills in, on the **W-2** page (information taken from the **Personal Information** page), then *change the information on the W-2 page in TaxSlayer* so that it matches the paper Form W-2.
  - If the information on the paper Form W-2 is simply not current (the employee has moved, or just changed the mailing address), no further action is required for the federal return.
    - **Note for CA state returns:** If the taxpayer address changed from that on the prior year tax return, you should already have entered that information in the State Section (Basic Information > Additional Personal Information), but if not, make a note that this is needed.
  - If the information on the paper Form W-2 is correct and the information in the **Personal Information** page is wrong, go back to the Basic Information section and change the taxpayer address
    - This correction *will not affect TaxSlayer pages that have already been used*. You will need to make manual corrections to those pages.
  - If the information on the paper Form W-2 is current but incorrect (for example, the wrong street number), discuss with the taxpayer whether the employer has been notified of the need to make a correction.

### **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** filing 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 **9**) saying that
- **CA process 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 the section W-2 Form - Medicaid Waiver Payments, on page **29**. 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 excluded 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 sometimes possible 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](http://sec.gov/edgar/searchedgar/companysearch.html). Click "More Options", type the beginning of the company name, select the state, and 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 [apps.irs.gov/app/eos/](http://apps.irs.gov/app/eos/), change the "Search By" field to "Organization Name", and enter the name [start by trying a single word, particularly if there is an uncommon one in the organization's name] plus city and state. Then click "Search".
  - If an EIN that is found in an online search isn't very close to the number entered into TaxSlayer, *don't use it*. Instead, call the taxpayer 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.
  - If the amount in box 1 is subsequently changed, the change *will* affect the amounts in boxes 3 through 6
    - **Note for CA state returns:** A change in box 1 will **not change box 16, state wages**. Box 16 does not affect income amounts on the CA return [the CA 540 uses the federal income figure as a starting point; a box 16 difference leads to no adjustment], but **box 16 is used as the earned income** amount for the W-2. Normally a change in box 1 should lead to a **manual change to the box 16 amount** so that CalEITC is calculated correctly.
  - Entering information in box 12 will *not* affect boxes 3 through 6
  - If box 1 shows zero wages, the Form W-2 may be to report sick pay or disability payments, which are 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 **109** [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.
  - 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 Schedule 4)
- **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
  - 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”
  - 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, Line 1. See the section Schedule 3, Line 49 - Credit for Child and Dependent Care Expenses below, page **84**
- **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, page **30**
- **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 Schedule 4, 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 Schedule 3, discussed on page <b>88</b> ); create a note (page <b>9</b> ) as a reminder to determine if this credit should be given. <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 <b>26</b> if there is a zero dollar entry on line 1 of the W-2
K	20% Excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements.
P	Excludable moving expenses - <i>out-of-scope</i> except for those with Military certification, and limited – as of tax year 2018 – to military personnel; requires Military certification
Q	Non-taxable combat pay. Optionally used to calculate Earned Income Tax Credit - TaxSlayer will pick the correct option. <i>Out-of-scope</i> except for those with Military certification
R	Employer contributions to an Archer Medical Savings Account (MSA) – <i>out-of-scope</i>
T	Adoption benefits – <i>out-of-scope</i>
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 (HSA)</u> , making the return <i>out-of-scope</i> 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; <i>also requires CA adjustment</i> . (See page <b>64</b> .)
Y	An elective deferral that is NOT eligible for Retirement Savings Credit
Z	Income under section 409A on a nonqualified deferred compensation plan
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. (Any employer coverage is MEC for the ACA, but you still need to determine which individuals were covered as well as the months of coverage) – <i>out-of-scope</i> if the taxpayer or spouse had ACA premium tax credits (Form 1095-A) for the same period that the individual had employer-subsidized coverage
FF	Amount of permitted benefits under a qualified small employer health reimbursement arrangement (QSEHRA) - <i>out-of-scope</i> if taxpayer has Form 1095-A and income is low enough for PTC

Box 12 Code	Description
GG	Amount includible in gross income from qualified equity grants under section 83(i)(1)(A)
HH	Aggregate amount of income deferred under section 83(i) elections

- 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 “Save & Enter Another” to save information entered in the **W-2** page
  - On the 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 [Deductions > 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 [64](#) 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 [63](#)
  - **Note for CA state returns:** CA does not recognize HSAs – TaxSlayer makes the adjustment, increasing state income. See Health Savings Accounts in CA, page [105](#), for details and other required entries.
- **Box 13:** Check the applicable boxes to match what is on the paper Form W-2
  - 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 1 of 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” or “401K”), 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 Schedule 3, Line 51 - Retirement Savings Contribution Credit on page [88](#)). But if the retirement contribution is *required* by the employer, then select “Retirement (Not in Box 12) – Do not carry to Form 8880.”.
  - **Note for CA state returns:** Union dues are potentially usable as a CA itemized deduction, subject to the 2%-of-AGI reduction. TaxSlayer does *not* automatically handle this.
  - **CA process 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.
- **CA process 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 are considered a tax.
- **Note for CA state returns:** The maximum amount subject to SDI for 2018 is \$114,967, for a maximum of \$1,150 of withholding. (The 2018 rate is 1.0%, up from 0.9% in the three prior years.)
  - 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 the section Additional CA Itemized Deductions on page 104.

### W-2 Form - Medicaid Waiver Payments

- **CA process note:** 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 payments” section of [Pub 525, Taxable and Nontaxable Income](#), for more details
  - To qualify for exclusion, the care provider and the care recipient **must** live at the same home
  - **For tax returns – of any year – prepared by the Tax-Aide program, such payments must be excluded from income**
- If the taxpayer is required to exclude the income, then IHSS may have reported zero wages in box 1 of the Form W-2. **TaxSlayer software will not accept an entry of zero dollars for box 1 of a W-2 unless code Q, for Combat Pay, is in box 12.**
  - If the paper form W-2 has no dollar entries in boxes 1 through 14, other than boxes 3 through 6, and no state tax withholding (box 17) then **do not enter the W-2 into TaxSlayer.**
  - If the paper form W-2 does have a dollar amount in box 2, boxes 7 through 14, or box 17, then enter as wages, in box 1, the same amount as appears in box 3, “Social Security Wages”, on the paper Form W-2, and follow the instructions in the next paragraph for excluding that income from taxes.
  - Also, create a note (page 9) saying that “In order to e-file, Medicaid Waiver wages were put into box 1 and then excluded from income.
- If the taxpayer is required to exclude the income, but the Form W-2 does include that income in box 1, then use the box on the **W-2** page that is labeled “Medicaid Waiver Payment in Box 1”. Enter the amount to be excluded, *and review the two workarounds that may be necessary, as described below.*
  - **Note:** It is possible, though unlikely, that only **part** of the amount in Box 1 should be entered in the Medicaid Waiver field; that would be when either the IHSS client (the employer) or the taxpayer (the employee) moved during the year, and so the employer and employee didn’t live in the same home for the entire year.
  - **Note for CA state returns:** In order to remove Medicaid Waiver income from CalEITC calculations, Box 16 of the **W-2** page should be adjusted to be only non-Medicaid Waiver information. (Normally the adjusted amount would then be zero.)
    - [New in 2017] Alternatively, you can go to the State return, and on the **CA Earned Income Credit Form 3514** page [Credits > CA Earned Income Credit (Form 3514)], in the final box, enter the amount of the Medicaid Waiver payment. **Do not do both; this will result in double subtraction.**
- **[Workaround]** If, after completing the return, either the AGI amount, on Line 7 of Form 1040, is zero (the taxpayer had no income other than Medicaid Waiver Payments), or if there is a positive amount on Line 7 but taxes withheld (Line 16), is greater than Line 7, another adjustment is required in order to e-file the return:

## Federal Section - Income

- o Go to the **Dividend Income (Form 1099-DIV)** page [Income > Interest and Dividends Form 1099-INT / 1099-DIV > Interest or Dividend Income]; enter “TO ALLOW E-FILING” as the Payer’s Name, and enter \$1 on the line for “Capital Gain to Schedule D (Box 2a)”
- **[Workaround]** One final adjustment may be needed on the federal return. If the taxpayer has qualifying expenses that can be used for the Child and Dependent Care (CDC) credit [Line 49 of Schedule 3], then the expense amounts, listed on the **F2441 - Child Care Credit - Page 1** page, may need to be reduced. The **total** of those expenses cannot exceed the **total** of income on *other* W-2s (those which are *not* Medicaid Waiver income) plus business income (Schedule 1, Line 12).
- o **Note for CA state returns:** The nonrefundable dependent care credit on CA Form 3506 will automatically be correct if any needed adjustment is made to the expense amounts on the federal Form 2441.
- **Final steps:** Make a note in TaxSlayer, and also on page 2 of the Intake Booklet, that the taxpayer had a Medicaid Waiver exclusion, and any workarounds that you did to handle this.

## W-2 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
- **Note for CA state returns:** 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 **any** tribal land in California [prior to January 1, 2018, this had to be land of the *same* tribe]; and (c) the income was earned or derived from **any** California tribe’s land [prior to January 1, 2018, this had to be land of the *same* tribe]
  - o For income meeting all three criteria, which is therefore exempt from CA taxes, reduce CA income as described in the section Manually Entering Income Differences on CA Schedule CA on page **101**.
- **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:
  - o Include tips reported by employees (“reported tips”) in the taxable wages amount, in box 1 of Form W-2
  - o Put tips reported by employees into box 7 (“Social Security tips”), which when added to box 3 should equal box 1, Wages.
  - o 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.
    - If the taxpayer has maintained a tip log and advises that the total tips are less than the allocated tip amount, the taxpayer’s tip amount should be used in box 8; if the actual tips are greater than the allocated tips, use the unreported tips field described in the following paragraph to increase the allocated amount to the taxpayer’s actual amount.
- **There may be unreported tips.**
  - o 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
  - o 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 Schedule 4)
    - *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 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
    - **Note for CA state returns:** If the State ID is blank on the paper W-2, enter either six zeroes (000000) or six nines (999999) in TaxSlayer

- o **Note for CA state returns:** 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 **Note for CA state returns:** TaxSlayer does not automatically carry the state wages difference to CA Schedule CA, Part I, line 7. Manually enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **101**.
- **CA process 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 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 not on a W-2**

- A household employee who did not receive a Form W-2 because the employer paid that person less than \$2,100 for all of 2018 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 doing that type of work
- If the income is not reported on Schedule C, then it is reported as part of Line 1, Wages, salaries, tips, etc., on Form 1040
  - o Enter the amount on the **Enter Household Employee Income** page [Income > Other Income > Other Compensation]
  - o The total reported can be from multiple employers, as long as each paid less than \$2,100

### **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
- Such income will have been reported on a W-2, and entered as such. To **exclude** this income from being considered for those credits, enter the wage amount on the **Prisoner Earned Income** page [Income > Other Income > Other Compensation]

### **Scholarships, Fellowships and Grants – Form 1098-T**

- See [page J-1 of Pub 4012](#) regarding the tax treatment of scholarships and fellowships.
- To the extent that there is reportable income [some or all of any taxable income from scholarships, fellowships, and grants can be offset by qualified expenses], 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 For 2018, if a dependent under the age of 19, or under the age of 24 and a full-time student, has more than \$2,100 of unearned income, *including taxable scholarship and fellowship amounts not reported on a W-2*, the dependent's return is subject to the "Kiddie Tax". Because of a federal tax law change, such a tax return is now *in-scope* for Tax-Aide.. [Unearned income includes *all taxable income other than earned income*: taxable interest, pension and annuity income, etc.]
    - **CA policy:** Because California rules do not conform with the federal tax law change for 2018 and after, the dependent's federal tax return remains **out-of-scope** if the \$2,100 limit is exceeded, because the state return is still **out-of-scope**. The taxpayer needs to go to a paid tax preparer or use tax-preparation software in order to file the dependent's federal and state returns.
- 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 The taxable scholarship amount **MUST** be reduced for tuition, fees, books, and/or equipment **to the extent** that the scholarship is awarded to cover specific expenses

## Federal Section - Income

- 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.
  - As of 2018, Form 1098-T shows “qualified tuition and related fees” **paid** to the school during the tax year, not the amount billed. The amount spent for books and equipment must be determined by the taxpayer.
- **Important:** The (net) 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) will be reported on the return of the parent, if paid by the parent. So if the scholarship is for a dependent, any (net) scholarship amount would be reported on the **dependent’s return**, not on the taxpayer’s return
- Worksheet 1-1 on [page J-1 of Pub 4012](#) can be used to determine the taxable portion of a scholarship; this requires asking the taxpayer to determine how the scholarship money was used. However, the Education Calculator, at [cotaxaide.org/tools/](http://cotaxaide.org/tools/), is better because it helps optimize what is reported as scholarship income.
- To enter any scholarship amount that is *not* offset by qualified expenses, go to the **Scholarships and Grants** page [Income > Other Income > Other Compensation]
  - 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 for one person, total the scholarships, enter the total in TaxSlayer, and add a note (per page 9) documenting your calculations
  - o The amount entered on this TaxSlayer page will appear on Line 1 of the 1040.
    - Scholarship income on Line 1 does *not* count as earned income for EIC calculations
- **Note:** Student loans are never income. Expenses paid with borrowed funds, such as with 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 be the person providing the support from that loan.

## **LINE 2 - TAXABLE AND TAX-EXEMPT 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:
  - o Discuss with the taxpayer whether the accounts are in fact outside of the U.S. (look at payer information)
  - o If there were one or more foreign accounts, ask the taxpayer what was the highest (approximate) value during the year for all accounts, combined
    - 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 > Interest and Dividends > ...] and check *only* the first box
  - o 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 9) that you informed the taxpayer of the requirement to file Form 3520
      - Form 3520 itself is **out-of-scope** – do not assist the taxpayer in completing this form

### ***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:** 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 one or more of these boxes, then the return is **out-of-scope**. Similarly, if there is an entry in box 12 and/or 13, which involve bond premiums, the return is **out-of-scope**.

- Go to the **Interest Income** page [Income > Interest and Dividends > Interest or Dividend Income > Interest Income, Form 1099-INT, (including interest income < 1,500)]. Each 1099-INT is entered separately

- o **Note:** Institutions that have paid less than \$10 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
  - Credit unions refer to payouts on depositor accounts as “dividends”, because such payments are not *legally* required, even when rates are publicized in advance. However, for tax purposes, these “dividends” should be treated as interest. If \$10 or more, such payments will be reported on a Form 1099-INT.
- Entering information from a Form 1099-INT is described on [pages D-7 through D-9 of Pub 4012](#). Additional notes:
  - o *If the taxpayer has children, make sure that the SSN on the 1099-INT is not that of a child.*
  - o The Payer’s Name is required, but can be abbreviated
  - o **CA process note:** The Payer’s TIN and Payer’s Address **do not need to be entered**
  - o **CA process note:** For MFJ returns, because CA is a community property state there is no need to change the default of “Taxpayer”, on the line “Taxpayer, Spouse, or Joint?”
  - o The amount in box 2, “Early Withdrawal Penalty”, is carried to Line 30 of Schedule 1
  - o Box 3, interest on U.S. savings bonds and Treasury obligations: Part of the amount in Box 3 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, Form 8815 is *out-of-scope* for Tax-Aide (do **not** follow Pubs 4012, which discusses using 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 legal note:** Interest income from U.S. savings bonds, Treasury bonds and other direct obligations backed by the U.S. Government, including federal Land Banks and Federal Home Loan Banks, are not taxed by California. 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 that is labeled “Amount of interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return.”**
  - o Box 5, Investment Expenses, cannot, as of January 1, 2018, be claimed as an itemized deduction on the federal Schedule A. It is part of the category of deductible expenses that were subject to a 2%-of-AGI reduction; the entire category has been eliminated for tax years 2018 through 2025.
    - **Note for CA state returns:** California conforms to federal Schedule A deductions *as of 2015*, so this expense *is* allowable as a CA itemized deduction, subject to a 2%-of-AGI reduction.
      - TaxSlayer handles such “no longer valid for federal, but possibly valid for states” expenses by continuing to have them **manually** entered in the federal itemization section. For details, see page [79](#).
  - o Box 6, Foreign Tax Paid: An amount entered here will go to Schedule 3, Line 48, Foreign Tax Credit.
    - As discussed on page [84](#), if foreign taxes paid total more than \$300 (\$600 for a joint return), the taxpayer should be informed of his/her options.
  - o Box 8: Tax Exempt Interest. TaxSlayer assumes – *if* nothing else is entered – that **all** tax exempt interest income is *exempt* from state tax. If that is not true, then the amount that *is* taxable by a state should be entered – click on “ADD INTEREST ITEMS”
    - Generally the payer will report, in percentages, how much of the exempt income is from various states; those figures are used to determine how much of the exempt interest income is in fact taxable by a state
    - **Note for CA state returns:** Interest and dividends from state and municipal bonds of states other than CA *is* taxable for the CA return
      - The general rule is that if 50% or more of the assets held by a fund are CA obligations, only the income that is *not* from those obligations is subject to CA tax; if less than 50% is from CA, then all of the interest that is reported in box 8 **is taxable** by CA.
  - o Box 9: The private activity bond (PAB) amount flows to Form 6251
    - Large amounts of PAB income can trigger the Alternative Minimum Tax, which would make the return *out-of-scope*, but this is quite unlikely. The total of PAB income, plus various other (unusual, and mostly out-of-scope) items, would have to exceed the Alternative Minimum Tax (AMT) exemption amount.
      - The exemption amount varies by filing status; for 2018, the amount for MFJ is \$109,400; for single taxpayers and HoH filers, it is \$70,300; and for MFS filers it is \$54,700 (half of the MFJ amount).
  - o Boxes 10 through 13: An amount in any of these boxes makes the return *out-of-scope*

### **Original Issue Discount (OID) Interest**

- On a Form 1099-OID, any amounts in boxes 5 (Market discount), 6 (Acquisition premium), 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 a Form 1099-OID should have been received by the taxpayer but was not.
- [New, 2018] OID interest is entered on its own TaxSlayer page. Go to the **Form 1099-OID** page [Income > Interest and Dividends > Interest or Dividend Income > Original Issue Discount, Form 1099-OID]
  - **CA process note:** The Payer's TIN and Payer's Address **do not need to be entered**
  - Box 8: An amount here is treated the same way as an amount in box 3 of a Form 1099-INT – see the section immediately above.
    - **Note:** If box 8 has a negative amount, this is a deflation adjustment. In this situation, both the form and the return are *out-of-scope*
  - **Note for CA state returns:** Box 9, Investment Expenses, might be used for itemization on the CA return, as discussed in the section above (see box 5, there).
  - Box 11: An amount here is treated the same way as an amount in box 8 of a Form 1099-INT – see the section immediately above.

### **HSA Interest**

- CA does not recognize HSA trusts. Interest income earned in such a trust is taxable for CA – see Health Savings Accounts in CA, page [105](#)

### **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 Seller Financed Interest** [Income > 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 [9](#)) saying that
  - Click "Continue"

### **LINE 3 - DIVIDENDS**

- Entering information from a Form 1099-DIV is described on [page D-11 of Pub 4012](#)
  - **Warning:** Form 1099-DIV, and the entire tax return, is *out-of-scope* if there are any entries in boxes 2c, 2d, 9, or 10, or if the "FATCA Filing Requirement" box (to the left of box 11) has been checked.
  - **Note for CA state returns:** CA does not recognize HSA trusts. Dividend income earned in such a trust is not federally taxed, but is taxable for the CA return – see the section Health Savings Accounts in CA, page [105](#)
- Go to the **Dividend Income (Form 1099-DIV)** page [Income > Interest and Dividends > Interest or Dividend Income > Dividend Income, Form 1099-DIV]
- The Payer's Name is required, but can be abbreviated
- **CA process note:** The Payer's TIN and Payer's Address **do not need to be entered**
- **CA process note:** For MFJ returns, because CA is a community property state there is no need to change the default of "Taxpayer", on the line "Taxpayer, Spouse, or Joint".



- Enter amounts from boxes 1a, 1b, 2a (capital gain distribution), 2b, 3, and 4 into TaxSlayer
  - **Note:** Box 2b, “Unrecap. Sec. 1250 gain”, is in-scope; ignore any statement to the contrary in Pub 4491.
  - **Note:** If there is an amount in box 3, advise the taxpayer that nondividend distributions are a return of investment (principal) and reduce the cost basis of their investments. (Such distributions are non-taxable.)
- Other *in-scope* information that appears on the Form 1099-DIV is entered as follows.
  - Box 5, Section 199A (REIT) dividends
    - Of the amount in this box, 20% flows to the Qualified Business Income (QBI) deduction.
  - Box 6, Investment Expenses, cannot, as of January 1, 2018, be claimed as an itemized deduction on the federal Schedule A. It is part of the category of deductible expenses that were subject to a 2%-of-AGI reduction; the entire category has been eliminated.
    - **Note for CA state returns:** California conforms to federal Schedule A deductions *as of 2015*, so this expense *is* allowable as a CA itemized deduction, subject to a 2%-of-AGI reduction
      - TaxSlayer handles such “no longer valid for federal, but possibly valid for states” expenses by continuing to have them **manually** entered in the federal itemization section. For details, see page [79](#).
  - Box 7, Foreign Tax Paid: An amount entered here will be included on Schedule 3, Line 48, Foreign Tax Credit, as discussed on page [84](#)
    - **Note:** If the total that flows to Line 48 is greater than \$300 (\$600 for a MFJ return), there are potential complications – see the discussion on page [84](#)
  - Box 11, Exempt-Interest Dividends. TaxSlayer assumes – *if* nothing else is entered – that **all** tax exempt interest income is *exempt* from state tax. If that is not true, then the amount that *is* taxable by a state should be entered – click on “ADD INTEREST ITEMS”.
    - Generally the payer will report, in percentages, how much of the exempt income is from various states; those figures are used to determine how much of the exempt interest income is in fact taxable by a state
    - **Note for CA state returns:** Interest and dividends from state and municipal bonds of states other than CA is taxable for the CA return
      - The general rule is that if 50% or more of the income was from CA obligations, only the income that is *not* from those obligations is subject to CA tax; if less than 50% is from CA, then all of the interest that is reported in box 8 is **taxable** by CA.
      - Determining the amount will require a detailed review of the broker’s statement or other documentation for the Form 1099-DIV.
  - Box 12: To understand the context of any private activity bond (PAB) amount, see the discussion regarding box 9 of a Form 1099-INT – see page [32](#)
  - Box 15: If there is an amount in this box, see the section State Tax Withheld, on page [109](#)

### **Foreign Account or Assets**

- If the 1099-DIV appears to be from a foreign source, see Foreign Accounts or Assets, on page [32](#).

## **LINE 4 - 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
  - If there is any question as to whether the taxpayer did in fact meet the RMD requirements, see section 5329 Part IX – RMD Not Taken, on page [91](#), which includes a discussion of how to determine RMD amounts.

### **1099-R Forms**

- Pensions and annuity income and IRA distributions are reported on three different versions of Form 1099-R:
  - The standard version, entered in TaxSlayer on the **Form 1099-R** page [Income > IRA/Pensions > Add or Edit a 1099-R]

## Federal Section - Income

- o Form CSA 1099-R, issued by the U.S. government, which is a close variant of the standard form, and is entered on the same TaxSlayer page as the regular 1099-R. The differences are discussed in the section Office of Personnel Management (OPM) CSA 1099-R form, on page [43](#)
- o Form RRB-1099-R, for railroad retirement pensions. Follow the instructions in the section which discusses that form, on page [43](#); this form is entered on a different page than the regular 1099-R.
- Box 7 of the paper Form 1099-R is critical, because certain codes are **out-of-scope**: code **2** (if the “IRA/SEP/SIMPLE” box is checked), code **5**, code **8**, code **9**, code **A**, code **D** (if a high-income taxpayer), code **E**, code **J** (if any part of the distribution is taxable, which needs to be determined), code **K**, code **N**, code **P**, code **R**, and code **T** (if any part of the distribution is taxable, which needs to be determined).
  - o 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.
  - o **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 [9](#)) 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.
  - o If TaxSlayer has encountered that EIN on another return, **at the same site**, during the **current** filing 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.

### ***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.
  - o If no address is shown on the Form 1099-R, leave the TaxSlayer-provided address as is.

### ***1099-R Form – Distributions from Retirement Accounts***

- Form 1099-R is used for two somewhat similar things: distributions from retirement accounts, and pension and annuity payments. Distributions are covered in *this section*; pensions and annuities are covered in a later section, on page [39](#)
  - 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 (discussed later), will have, in box 7, one of the following codes: code **3**, code **4** (also used for distributions), code **6**, code **7** (also used for distributions), code **D**, or code **F**. All other codes are for distributions.
- 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 is in-scope beginning with the 2017 tax year.
  - o Distribution from a converted Roth IRA 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 2a **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.
- 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 [page D-33 of Pub 4012](#), “Taxable Amount not Determined (Special Circumstances)”, and also see the information about the meaning of the code(s) in [Box 7](#), below
- **Box 5:** An amount in this box, *for a distribution*, normally results in box 2a being the difference between box 1 and box 5
  - If this is a Total Distribution (box 2b will be so checked), then remaining employee contribution may appear in box 5
  - 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 (Line 16), starting on page [79](#).
- **Box 7 code:** Take care in entering the code shown on the Form 1099-R
  - The IRS [Instructions for Form 1099-R](#) has a “Guide to Distribution Codes” which is more detailed than the table on [pages D-37 and D-38 of Pub 4012](#)
  - If multiple codes are shown (for example, “G4”), enter both codes into TaxSlayer
    - For issues of *scope*, check each code separately.
      - **Note:** According to the AARP Foundation Tax-Aide Scope Manual, three codes - code **6**, code **U**, and code **W** - are in fact fully in-scope, and three codes - code **D**, code **J**, and code **T** - *can* be in-scope under certain circumstances. For the AARP Tax-Aide program, that scope manual is the governing publication, not Pub 4012.
  - 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
  - Code **J** (early distribution from a Roth IRA) - follow the instructions on [page D-36 of Pub 4012](#) to determine whether the Form 1099-R is in scope, and if so, how to enter it into TaxSlayer
  - 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. Use the flow chart on page [page D-36 of Pub 4012](#) to determine taxability (if any of the distribution is taxable, the return is *out-of-scope*)
    - **Note:** If, after completing the TaxSlayer page for a 1099-R with code T, TaxSlayer displays the **Form 8606 - Nondeductible IRAs** page, the return is *out-of-scope*, because Part III needs to be completed, which is *out-of-scope*.
  - Code **G** and code **H** are direct rollovers - see the section 1099-R Form – Transfer or Rollover on page [38](#)
  - If code **1** or code **S** is entered into box 7, then after all information has been entered into the TaxSlayer page, and “Continue” or “Save & Enter Another” 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 [38](#), 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**

## Federal Section - Income

- o If the taxpayer cashed in an annuity, they will have received a Form 1099-R with the amount they received
- o 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 (Line 16) on page 79

### **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.
  - o Do not use the taxpayer’s age as of December 31 of the tax year to determine whether a penalty applies; use the taxpayer’s actual date of birth, and the actual date of withdrawal to calculate at what age the withdrawal took place.
  - o **Note for CA state returns:** There is also a 2.5% tax assessed by CA for early withdrawals; this shows on CA Form 3805P and appears on line 63 of the Form 540
- Exceptions to the penalty are listed in [Pub 4012, page H-4](#)
  - o For additional exceptions that apply to annuities, see [Pub 575, Pension and Annuity Income](#)
  - o Note that exceptions 07 through 09 are only for IRA withdrawals, not withdrawals from other types of qualified retirement plans
  - o 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.
  - o Funds from a distribution do not have to be explicitly spent on the expenses for which an exception is being claimed, but the distribution and the expenses have to be in the same tax year
- If there is an exception to the penalty:
  - o As discussed in the section immediately above, you should have already viewed the **Form 1099-R Distribution Penalty** page, and the second box should have been checked,
  - o Go to Part I of the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution]
  - o If the return is for a married couple, select whether you are completing this page for the taxpayer or the spouse
  - o Enter the amount that is NOT subject to that penalty in the correct box, either SIMPLE [if code S in box 7 of the Form 1099-R] or non-SIMPLE [if code 1]
    - **Warning:** TaxSlayer performs no error checking on the amount entered. Make sure the amount entered is correct
  - o Select the reason for exemption in the drop-down box
  - o Click “Continue”
  - o On the “other taxes” menu page, click “Print” to create a PDF of the Form 5329, to confirm that line 4 of Part I is the expected amount, which will be zero if all distributions subject to the penalty have an exception.
  - o **Note for CA state returns:** Exception information which is entered in Part I of Form 5329 automatically carries to CA Form 5805P.

### **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”.) Box 7 will code **G** or code **H**
  - o The taxpayer can do this as often as they wish, without penalty
  - o 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-R
  - o In the “Rollover or Disability” section of the **Form 1099-R** page, 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 code **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)
- If a taxpayer received a qualified retirement distribution with federal tax withheld and then decided to roll it over into another account, complete the Form 1099-R entry page with \$0 in box 2a, **no withholding**, code G and the rollover of the full amount. Then enter the tax withheld as Other Federal Withholding under Payments & Estimates.
- **Note:** A conversion of a traditional IRA to a Roth IRA is in-scope as of tax year 2017; this requires completion of part II of Form 8606.
- [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 section 3.02 of the revenue procedure, apply. (More information is in the IRS document “[Retirement Plans FAQs relating to Waivers of the 60-Day Rollover Requirement](#)”.)

### **1099-R Form –Qualified Charitable Distribution**

- The taxpayer may have made one or more Qualified Charitable Distributions (QCD)
  - This involves the taxpayer directing a payment to go **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, should the IRS request more information.
  - The taxpayer must have been at least 70½ when the donation was made; the maximum dollar amount in any single year is \$100,000
- For such cases:
  - In box 2a, enter the total amount that the taxpayer received from the retirement account – the amount that was **not** charitable gifts. (This amount will be zero if all distributions went to charities.)
  - 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”.
    - **Note: The 1099-R Nontaxable Income** page does not code or mark any specific 1099-R as being a QCD distribution; rather, it sends information to the IRS that *one or more* 1099-Rs involved a QCD.

### **1099-R Form – Pensions and Annuities**

- As mentioned above, Form 1099-R is used for two somewhat similar things: distributions from qualified retirement accounts, and pensions and annuities. Distributions are covered in the section 1099-R Form – Distributions from Retirement Accounts, on page **36**
  - 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
  - Annuities and pensions will have, in box 7, one of the following codes: code **3**, code **4** (also used for distributions), code **6**, code **7** (also used for distributions), code **D**, or code **F**
    - For code **F**, see the information for [Box 3](#), below
  - The U.S. government issues Form CSA 1099-R for federal 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 **43**
  - Form RRB-1099-R is for railroad retirement pensions; follow the instructions in the section which discusses that form, on page **43**
- **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
  - 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 often, but not always, is in box 5; treat box 5 as a *clue* the amount entered into box 2a might not be the same as the amount in box 1.
- o The total amount of after-tax dollars that 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 Safety Officer (PSO) Exceptions, on page [41](#).
- **Box 3:** This box is used for reporting a capital gain related to a Charitable Gift Annuity (Code F in box 7)
  - o An amount in box 3 affects the amount that should be entered into box 2a in TaxSlayer
    - For 1099-Rs that are Code F, the amount entered into box 2a in TaxSlayer should be box 1 (total income) minus box 3 (capital gain) minus box 5 (tax-free portion). *Ignore any amount shown in box 2a of the paper Form 1099-R.*
    - Boxes 3 and 5 of the paper Form 1099-R should be entered into TaxSlayer as they appear on the paper form. *The box 3 amount must be entered again, elsewhere – see the next item.*
  - o Manually enter the capital gain portion (the amount in box 3) – go to the Capital Gains Transaction page [Income > Capital Gain and Losses > Capital Gains and Loss Items]
    - 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 capital gains amount 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 there is an amount in box 5 of the paper Form 1099-R, enter that amount into TaxSlayer page
  - o If the payer has calculated, in box 2a, a 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. (If there is an amount in box 3, see the instructions above for box 3, which govern in this case.)
  - o For Form CSA 1099-R from the Office of Personnel Management, see page [43](#)
  - o If box 2a is blank, there is an amount in Box 5, box 7 is *not* Code F, 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:**
  - o 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 in the "Rollover or Disability" section of the page, check the box "Check here to report on Form 1040, Line 1". That will place the pension on that line on Form 1040, as wages, making the taxpayer eligible for EIC and other credits, because the IRS considers such payments to be *earned income*.
    - Minimum retirement ages for federal employees can be found in [Pub 721, Tax Guide to U.S. Civil Service Retirement Benefits](#)
    - **CA process note:** Minimum retirement ages for [CALSTRS](#) and [CALPERS](#) annuitants are 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.
    - **Note:** a taxpayer who retired on **permanent and total disability**, had taxable disability income, AND was under the minimum retirement age as of December 31 of the tax year, may be eligible for the Credit for the Elderly and Disabled, as discussed on page [90](#)

- **Box 9b** is the total employee contributions to the plan; enter the amount, if any, into TaxSlayer

### **1099-R Form - Simplified Method**

- If the employee made after-tax contributions toward the retirement plan, a portion of the payment is not taxable
  - **Note:** If the starting date of the payments was **prior to July 1, 1986** and there is no entry in Form 1099-R box 2a, then it's impossible to **calculate** the amount that can be excluded. Part or all of the taxpayer's contribution could have been recovered under the "Three Year Rule" that was in effect prior to July 1, 1986.
    - The taxpayer should have established, beginning in 1987, a monthly amount that was to be excluded from taxation. That amount – which could have been zero - *continues* indefinitely as long as the pension is being paid.
      - This information has to come from the taxpayer. If the taxpayer doesn't know the monthly amount, then the entire amount in box 1 should be treated as taxable.
- To do the calculation for the amount of the payments that can be excluded, for pensions, six things are needed:
  - The gross amount for the year (box 1 of the paper Form 1099-R, box 7 of the RRB-1099-R)
  - Total employee contributions [TaxSlayer calls this "Plan cost at annuity start date"]
  - The annuity start date
    - This is the date that the first payment was received. The payment might have been to a deceased spouse, if that spouse was the annuitant
  - The birthdate of the annuitant (the person to whom the pension was first paid)
    - Again, this might be the birthdate of the deceased spouse.
  - *If* this is a joint or survivor annuity, the birthdate of the spouse
    - If the annuitant died before receiving the first payment, do *not* treat as a joint or survivor annuity
  - The number of months of payments in the current tax year [normally 12]
- If the the annuity start date is after June 30, 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/](http://cotaxaide.org/tools/) to calculate the amount to enter in box 2a
  - The taxpayer's name should be entered at the top of this calculator if the page is going to be printed for the taxpayer's records
  - The spouse's birthday is entered only if this is a joint or survivor annuity
  - 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
  - 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.
- **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, as discussed in the paragraph immediately below
  - The TaxSlayer worksheet is more difficult to understand than the Annuity Calculator, and if used is more likely to give an incorrect answer. It also does not provide the additional information that the Annuity Calculator will display for less common situations – for example, that if a pension began prior to 1998, then the simplified method does *not* use combined ages to calculate the amount to exclude from taxation.
  - [New, 2018] The Simplified Method Worksheet" is a Carryforward item, so once it is filled out, it can reduce data entry work in future years.
- **Note for CA state returns:** 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
  - 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 **101**, an increase in taxable income of an amount equal to the federal simplified method basis recovered

### **1099-R Form – Public Safety Officer (PSO) 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

## Federal Section - Income

- 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 [for a CSA 1099-R, this is always the case], or in a letter from the plan, or in another document showing pension information
  - 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 **41**, then, in the Annuity Calculator at [cotaxaide.org/tools/](http://cotaxaide.org/tools/), 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”.
  - **Note: The 1099-R Nontaxable Income** page does not code or mark any specific 1099-R as involving the PSO exception; rather, it sends information to the IRS that *one or more* 1099-Rs involved this exception.
- o Create a note (per page **9**) that “Pension has PSO exclusion for health care”
- o **Note:** The insurance costs that are used to determine the PSO exclusion *cannot be used* for the Self-Employed Health Insurance (SEHI) adjustment; that would be double-counting.
- Survivor Benefits Exclusion
  - 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 **Note for CA state returns:** 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 **101**

## 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 [see next paragraph]
    - 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 either six nines (999999) or six zeroes (000000) in TaxSlayer
- 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)
    - **Warning:** If CA withholding, box 12, is greater than box 2a, taxable amount, **and box 14 is blank** on the paper form, *enter, in box 14, the CA tax withholding amount, because TaxSlayer will not allow the amount in box 12 to exceed the amount in box 14. (Entering the CA withholding amount in box 14 will **not** affect the taxable income amount on CA Form 540.)*
  - o IF there is a dollar amount in box 14 of the paper Form 1099-R which is **different** than the federal amount in box 2a, enter the state distribution amount from the paper Form 1099-R into box 14.
    - **Note for CA state returns:** TaxSlayer does not automatically carry the difference in the distribution amount to CA Schedule CA, Part I, line 15 . Manually enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **101**.
- **Note for CA state returns:** CA follows the federal rules for taxability for all CA residents for employer plan distributions
  - o See the section IRA Basis Difference, page **103**, 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

<b>PAID BY</b> OFFICE OF PERSONNEL MANAGEMENT RETIREMENT SERVICES PROGRAM P.O. BOX 45 BOYERS, PA 16017-0045		<b>STATEMENT OF ANNUITY PAID</b> Copy B - File with Federal tax return		<b>2014</b> 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		<b>PAID TO</b> →		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	

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

- Box 2a – if the annuity starting date is after July 1, 1986, but before November 19, 1996, the taxable amount box may show "unknown"
  - In this case complete the simplified method worksheet as detailed above
- Box 5 on this form is the 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 :
  - If the retiree is having dental, vision, or LTC insurance premiums deducted, **they will not be included in box 5**. The only way to see these other premiums is to see the 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](#)
  - [CSA/CSF 1099R Issues](#)

**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](#)
  - Note for CA state returns:** This income is not taxed by California. TaxSlayer makes the adjustment on line 16 of Part I of CA Schedule CA

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092		<b>2014</b>		ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD	
PAYER'S FEDERAL IDENTIFYING NO. 38-3914600		3. Employee Contributions		COPY C - FOR RECIPIENT'S RECORDS.  THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.	
1. Claim Number and Pavea Code		4. Contributory Amount Paid			
2. Recipient's Identification Number		5. Vested Dual Benefit			
Recipient's Name, Street Address, City, State, and Zip Code		6. Supplemental Annuity			
		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

## Federal Section - Income

- TaxSlayer has a separate page, **RRB-1099-R**, to enter railroad retirement pay. [Income > IRA/Pension Distributions > 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
  - For box 7a, Taxable Amount, the simplified method must be used when box 3 has an amount in it. How to do so is discussed in the section 1099-R Form - Simplified Method, on page **41**
  - 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 **69**
  - On the bottom right of the TaxSlayer page is a checkbox, “Check here to report on Form 1040, Line 1”. 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, page **46**), make the return *out-of-scope*
- A Canadian Registered Retirement Savings Plan (RRSP), which is similar to an IRA, makes the return *out-of-scope*

## **LINE 5 - SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS**


- Up to 85% of Social Security benefits may be taxed on the federal return
  - Computationally, if AGI plus tax-exempt income plus one-half of Social Security benefits is less than \$25,000 (\$32,000 for MFJ), **none** of the Social Security benefits will be subject to tax. Nevertheless, all *potentially* taxable Social Security benefits must be entered into TaxSlayer when a return is being prepared.
- Social Security benefits, listed on a SSA-1099, and Railroad tier 1 benefits, listed 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 benefits” in this section refers to *both*.
  - Social Security Disability Insurance (SSDI) benefits are treated, for tax purposes, as regular Social Security benefits. A Form SSA-1099 is issued for SSDI.
  - Taxpayers can get a copy of any missing SSA-1099 from their local Social Security office, or by calling 1-800-772-1213.
    - **Note:** If doing a prior year return for tax year 2016, it may be worth noting that there was no cost-of-living adjustment on January 1, 2016. This means that a missing SSA-1099 for tax year 2016 can normally be reconstructed from the equivalent 2015 form.
- Other benefits paid by the Social Security Administration are treated differently
  - Benefits received by children of a deceased taxpayer are NOT taxable on a parent's return
  - Social Security death benefits (a maximum of \$255) received by the spouse or children of a deceased taxpayer are NOT taxable
  - Supplemental Security Income (SSI) benefits are NOT taxable and the taxpayer should not have received a SSA-1099 for such benefits
- Social Security benefits received by the taxpayer during the tax year are entered on the **Social Security SSA-1099/RRB-1099 Tier I** page [Income > IRA/Pension Distributions > Social Security Benefits/RRB-1099]
  - Both taxpayer and spouse are reported on the same page
  - 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 there is more than one paper form for a person for the same year, combine amounts on all paper forms to see if the amount is positive or negative. If positive, use the net positive number
      - A typical situation involving two SSA-1099s is when the taxpayer gets Social Security benefits based on his/her own earnings for part of the year, and gets benefits based on spousal earnings for the other part of the year.
    - If the amount in box 5 of a paper form is negative, and that taxpayer or spouse has only one SSA-1099 or RRB-1099, the return is *out-of-scope*
    - TaxSlayer will calculate automatically, and place the taxable amount, if any, on Line 5b of Form 1040

- Enter any federal tax withheld (box 6 of the SSA-1099, box 10 of the RRB-1099) on the appropriate line
  - Be careful not to enter Medicare payments on the line for federal tax withheld. (The vast majority of taxpayers do not have taxes withheld from the Social Security benefits, so this line is normally left blank.)
- Enter into TaxSlayer any Medicare payments listed on the SSA-1099 or Form RRB-1099
  - **Note:** If the return includes a Schedule C, **do not** enter Medicare premium costs on the **Social Security SSA-1099/RRB-1099 Tier I** page. Some or all of those costs might be used for the Self-Employed Health Insurance (SEHI) adjustment on Line 29 of Schedule 1. They should be entered on Schedule C, as discussed on page [65](#)
  - Medicare premium costs entered on **Social Security SSA-1099/RRB-1099 Tier I** page automatically flows to Schedule A, as medical costs. *Do not* reenter on Schedule A.
  - If a paper form lists more than one Medicare premium, and premiums are *not* being entered in Schedule C, then total all premiums and enter the total into TaxSlayer.
    - It’s helpful for the preparer to show their work by writing down what figures were totaled, and the total, on the paper form; that way, the reviewer can easily see how a total entered into TaxSlayer was arrived at.
- Attorney fees listed on a Form SSA-1099 do not affect Line 5a or 5b.
  - As of tax year 2018, attorney fees are no longer allowable as a deduction on the federal Schedule A; all deductions subject to the 2%-of-AGI reduction have been eliminated.
    - **Note for CA state returns:** A portion of attorney fees **is allowable** as a CA itemized deduction, subject to the 2%-of-AGI reduction. The portion is based on what percentage of the amount in box 5 of Form SSA-1099 is taxable – for example, if 70 percent of the amount is federally taxable, then 70 percent of attorney fees can be put on CA Schedule A. TaxSlayer handles such “no longer valid for federal, but possibly valid for states” expenses by continuing to have them **manually** entered in the federal itemization section. For details, see page [79](#).
- **Note for CA state returns:** Neither Social Security benefits nor Railroad tier 1 benefits are taxed by California. TaxSlayer makes the adjustment automatically on CA Schedule CA, Part I, 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 <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092 PAYER'S FEDERAL IDENTIFYING NO. 36-3314600 1. Claim Number and Payee Code 2. Recipient's Identification Number Recipient's Name, Street Address, City, State, and Zip Code  <b>OWATD700012007*0542321</b> ANNA M DONLY ... 15 CONDI AV SAN FRANCISCO CA 94126 01 188 064358	<div style="text-align: center; font-size: 24pt; font-weight: bold;">2014</div> <div style="text-align: center; font-weight: bold;">PAYMENTS BY THE RAILROAD RETIREMENT BOARD</div> <table border="1" style="width: 100%;"> <tr> <td style="width: 60%;">3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006</td> <td style="width: 40%;"></td> </tr> <tr> <td>4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006</td> <td></td> </tr> <tr> <td>5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006</td> <td></td> </tr> <tr> <td>6. Workers' Compensation Offset in 2006</td> <td></td> </tr> <tr> <td>7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2005</td> <td></td> </tr> <tr> <td>8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2004</td> <td></td> </tr> <tr> <td>9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2004</td> <td></td> </tr> <tr> <td>10. Federal Income Tax Withheld</td> <td>11. Medicare Premium Total</td> </tr> </table> <div style="text-align: right; font-weight: bold; font-size: 10pt;">                     COPY C -                      FOR RECIPIENT'S RECORDS.                      THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.                 </div>	3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006		6. Workers' Compensation Offset in 2006		7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2005		8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2004		9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2004		10. Federal Income Tax Withheld	11. Medicare Premium Total
3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006																	
4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006																	
5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006																	
6. Workers' Compensation Offset in 2006																	
7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2005																	
8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2004																	
9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2004																	
10. Federal Income Tax Withheld	11. Medicare Premium Total																

**FORM RRB-1099** **DO 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
  - Total Social Security payments received (box 5 of the SSA-1099) are still entered as described above

## Federal Section - Income

- o **If, after all income in the Federal Section has been entered, Line 5b on 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
  - The taxpayer’s options are (1) request a transcript from IRS for the missing year(s), or (2) treat the retroactive benefits for the missing year(s) as received in the current tax year.
- If Line 5b on 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 Line 20a of 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 amount on Line 21 of the prior year Form 1040 [for tax years 2017 and earlier], any amount on that same form for tax-exempt interest (Line 8b), plus any amounts in Line 33, Student loan interest deduction; and Line 34, Tuition and fees.
    - “Taxable Benefits Reported in Earlier Year” is the amount in Line 20b of Form 1040 for the prior year [for tax years 2017 and earlier]
    - Click “Continue to finish”. Then, 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
  - o 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
  - o Canadian versions are named the Canada Pension Plan (CPP), the Quebec Pension Plan (QPP), and Old Age Security (OAS)
  - o 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/individuals/international-taxpayers/yearly-average-currency-exchange-rates](https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates)
    - Other currency exchange rate sources are
      - [xe.com/currencytables/](https://www.xe.com/currencytables/)
      - [X-rates.com](https://www.x-rates.com/) (click on “Historic Lookup”)
  - o Enter the converted dollar amount on the **Social Security SSA-1099** page, as “Taxpayer's Social Security Benefit”
- **Note for CA state returns:** Canadian and German social security payments **are taxable** on the California return
  - o TaxSlayer does **not** make the correct adjustment for CA – it treats Canadian and German social security payments as if they were U.S. Social Security payments.
    - Enter the adjustment amount – the entire amount of the Canadian and German social security payments - as an addition to CA income, as described in the section Manually Entering Income Differences on CA Schedule CA on page [101](#).

## **SCHEDULE 1, 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. Part or all of this amount **may** be taxable in the year received; for example, a state income tax refund for the 2017 tax year **may** be taxable on the 2018 federal tax return
  - o The refund amount is NOT taxable if there was no benefit to the taxpayer, in the prior year, from an overpayment of state taxes that resulted in a refund.
  - o To accurately calculate the taxable amount, the taxpayer’s prior year federal tax return, or an IRS transcript of the return, **MUST** be available
    - If the tax return is *not* available, then either the entire amount of the refund must be treated as taxable or the return is **out-of-scope**
- **CA process note:** California uses a postcard-sized document to report this refund

- *No amount is to be reported as a taxable refund* (no action is required for Schedule 1, Line 10) if **any** of the four following criteria 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, as part of itemization, but this had **no** benefit based on the following calculation:
    - Line 42, “Exemptions”, on the 1040 for the prior year [2017 or earlier], is larger than Line 41, and when 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:
  - Go to the **State Refund Worksheet** page [Income > State and Local Refunds; search box: “Form 1099-G Box 2”] (this page is discussed on [page D-12 of Pub 4012](#))
  - 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 [apps.irs.gov/app/stdc/](https://apps.irs.gov/app/stdc/)
- To do the actual calculation of the taxable amount, you have two options:
  - You can use the TaxSlayer worksheet **unless** one or more of the following is true, in which case the TaxSlayer worksheet *will not calculate the correct amount*:
    - *Do not* use this worksheet if the taxpayer made estimated **state** tax payments for either the current tax year (for which a return is being prepared) **or** the prior tax year.
    - *Do not* use this worksheet if Line 42, “Exemptions”, on the 1040 for the prior year [2017 or earlier], is larger than Line 41
    - *Do not* use this worksheet if Line 56, the tax after refundable credits, on the 1040 for the prior year [2017 or earlier], is zero.
  - You can use the Refund Calculator at [cotaxaide.org/tools/](https://cotaxaide.org/tools/)
- For a refund received in 2018 that is from a tax year of 2016 or earlier:
  - Use the list of four criteria, above, to determine if any part of that amount should be reported as a taxable refund
  - If the refund meets none of those four criteria, or the taxpayer doesn’t have a tax return or IRS transcript for the year of the refund, then either (a) the entire amount of the refund must be treated as taxable or (b) the return is **out-of-scope**
- **Note for CA state returns:** Because CA does not allow state taxes to be used as part of CA itemized deductions, any amount on Line 10 of Schedule 1 is not taxable on the CA return. TaxSlayer makes the adjustment automatically on CA Schedule CA, Part I, line 10.

### **SCHEDULE 1, LINE 11 - ALIMONY RECEIVED**

- See [page E-8 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 > 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
- **CA process note:** The amount to be entered on Line 11, if alimony was received during *the year in which the divorce was finalized*, is calculated differently in community property states like California – see [Pub 555, Community Property](#)

### **FORM 1099-MISC**

**Information on Form 1099-MISC paper documents is entered on the Form 1099-MISC page, which is reached from the main Income page in the Federal Section. However:**

- Any amount in boxes 5, 6, and/or 8 through 15b make the return **out-of-scope**

## Federal Section - Income

- 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*.
- [Workaround] Amounts paid on a Form 1099-MISC **must be entered so that TaxSlayer puts the income on the correct schedule**. In some cases, this will mean that **an amount must be entered in TaxSlayer in a DIFFERENT box than was used on the paper Form 1099-MISC**.
- Income in box 7, “Nonemployee compensation,” is carried by TaxSlayer to a Schedule C.
  - o If income reported in box 7 of the paper Form 1099-MISC does belong on a Schedule C, then the form can be entered normally on the **Form 1099-MISC** page in TaxSlayer
  - o If this income does **not** belong on a Schedule C, but **belongs on Line 21, “Other income”, of Schedule 1** (see the section zzzz, on page 47, for further discussion of when a Schedule C should be used), then **enter the amount in Box 3** in TaxSlayer, not in Box 7.
- Income in box 3, “Other income”, is carried by TaxSlayer to Line 21, “Other income”, of Schedule 1.
  - o If income reported in box 3 of the paper Form 1099-MISC does belong on Line 21 of Schedule 1, 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 Schedule 1, but in fact is business-related and **belongs on a Schedule C**, then **enter the amount in Box 7** in TaxSlayer, not in Box 3.
- Income in box 2, “Royalties”, is normally carried by TaxSlayer to a Schedule E.
  - o If income reported in box 2 is due to the taxpayer’s **own personal services**, such as being an author or entertainer, then it belongs on a Schedule C. **Enter the amount in Box 7** in TaxSlayer, not in Box 2
    - **Note:** Business code 711510 is for “Independent artists, writers, & performers”
- **Note:** Form 1099-MISCs are required to be issued only when payments are made in the course of trade or business, and total at least \$600 for the year for a specific person. So, for example, a couple who are getting married and pay \$1,000 to a wedding planner have no requirement to issue a 1099-MISC to that wedding planner. Nor does a restaurant, for example, if it pays a musician a one-time fee of \$400 to perform at a party.
- **Note for CA state returns:** If Box 16 has an amount in it, enter that into TaxSlayer, along with the State (California) and the CA EIN (“Payer’s State No.”) Otherwise, no state information needs to be entered.

## **SCHEDULE 1, 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
  - o There is no limit for business income (overall limits relating to total AGI still apply), and **all** actual income must be reported.
    - It is also a violation of U.S. tax law to include *non-existent* income on a tax return, for example to increase the amount of the taxpayer’s Earned Income Credit
  - o Total **expenses** on any single Schedule C cannot exceed **\$25,000**
    - Any business expense that is *out-of-scope* makes the entire tax return *out-of-scope*
    - It is a violation of U.S. tax law to under-report business expenses for the benefit of the taxpayer, for example to increase the amount of the taxpayer’s Earned Income Credit
  - o 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.
  - 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**. Hobby income and any offsetting expenses are *out-of-scope*.
  - o **Note:** Rental income, if in-scope, is reported on Schedule 1, Line 17 - Rental Real Estate and Royalties (see below, page 58), not on Schedule C
- The following, for Schedule C, make the return *out-of-scope*: a net loss on a Schedule C, 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 with contract labor (*new in 2017*), 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, or which was involved in the manufacture, distribution, and/or sale of controlled substances such as marijuana, or where the business was professional gambling, or involved bartering or crypto currency transactions

- o 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; if so, that income, and the return, is **out-of-scope**.
  - The factors used to determine whether a business activity is “not-for-profit” (which makes it **out-of-scope**) are listed in the “Not-for-Profit Activities” section of Chapter 1 of [Pub 535, Business Expenses](#).
- The National Tax Training Committee (NTTC) of the AARP Foundation has published “Schedule C Guidelines Summary TY 18”, available on the Volunteer Portal (in Libraries; search on “Schedule C”) 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.
- **Warning:** If business income qualifies for schedule C-EZ and that schedule is not in the print set, neither Schedule C nor Schedule C-EZ will be printed.
  - o **If Schedule C-EZ shows up in a PDF** (when “printing” Schedule C from the **Income** menu, *force* the return to use Schedule C by putting \$1 in **both** lines 35 and 41 of Part III of Schedule C.
    - That’s done by editing the business, selecting “Cost of Goods Sold”, and then putting “1” in both “Inventory at the beginning of the year” and “Inventory at the end of the year”

### **Business Information for Schedule C**

- Go to the **Schedule C** page [Income > 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]
  - o **Note:** You also might reach this page after you entered information about a 1099-MISC for this business, with income reported in Box 7 of the 1099- MISC, if the basic business information has not already been entered.
  - o 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, one for the taxpayer, and one for the spouse
  - o Complete the Name and Address information
  - o Complete the Business Type information:
    - Business Codes can be found by clicking on the link in TaxSlayer, or at [cotaxaide.org/tools/](http://cotaxaide.org/tools/), or in the [Form 1040 Schedule C instructions](#))
    - **Note:** If you cannot find an appropriate code, use **812990**. [The business code for drivers who worked for Uber, Lyft, and similar, is 485999; for those driving for Grubhub, DoorDash, and similar, the code is 492000.]
  - 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 Information on completing this page can be found on [page D-17 of Pub 4012](#)
  - 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**
    - *The purchase of materials and of items for resale is in-scope for tax year 2018, but materials and items must be expensed when purchased; there cannot be any actual opening or closing inventory from an accounting perspective.*
  - o The checkbox for regarding “materially participated” must be checked, 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.

## Federal Section - Income

- 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".

### ***Schedule C Income not on a 1099-MISC***

- Business income not reported on a 1099-MISC form is added to a Schedule C by going to the **Schedule C - Income** page [Income > Profit or Loss From A Business > Income]
  - On the first line, enter the total amount of all income not on a Form 1099-MISC. (If records provided by the taxpayer do not include income from cash or check payments, **ask** if there was any such income.)
- If taxpayer receives a Form 1099-K for self-employment income (not for the sale of goods, or for rental income of 15 days or more, both of which are **out-of-scope**), the gross amount in Box 1a of the 1099-K should be included as income on Schedule C. Commissions and fees that affect the net amount paid to the taxpayer should be reported on the **Schedule C – Expenses** page (on the Schedule C page, select "General Expenses")
  - Do not enter the amount in box 1b of a Form 1099-K; that amount is included in box 1a.

### ***Schedule C – Out-of-Scope Expenses***

- On the **Schedule C** menu page, the following types of expenses are **out-of-scope**:
  - Depreciation
  - Expenses for Business Use of Your Home

### ***Schedule C – Cost of Goods Sold***

- Starting in tax year 2018, cash-basis taxpayers who purchase items for resale, and/or materials and supplies that go into items that are sold, **are in-scope** as long as they expense 100% of their purchases of goods at the time that they pay for the goods.
  - If the taxpayer filed a Schedule C in 2017 that included an ending inventory dollar amount, *the 2018 tax return is out-of-scope* if there was any activity in that business in 2018.
  - **Note:** *This scope change was made in December 2018, and is not reflected in the Pub 4012 version that was published in that month.*
- On the **Schedule C Cost of Goods Sold** page, only two fields are in-scope:
  - Purchases less cost of items withdrawn for personal use
  - Materials and supplies

### ***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 [Income > Profit and Loss from a Business > General Expenses]
  - Of these, the following are **out-of-scope**:
    - Contract labor
    - Depletion
    - Employee benefit programs
    - Mortgage interest
    - Pension and profit-sharing
    - Utilities
  - The following expenses have limitations
    - Rent or lease of equipment – this can include a car rental or lease, but only if for 30 days or less; **longer-term car rentals are out-of-scope**
    - Travel and meal expenses –see [Pub 4012, pages F-9 through F-13](#)) for what is allowable. Special documentation rules apply for the cost of meals if over \$75. The taxpayer must have receipt(s) showing where, when, and how much, and must document the business nature of the meal.
    - Entertainment expenses, as of tax year 2018, are no longer deductible on the federal Schedule C.
      - **Note for CA state returns:** California does not conform to the elimination of entertainment expenses as an allowable business expense. As of the publication date of this manual, TaxSlayer does not separate meal expenses from entertainment expenses, on the **Schedule C – Expenses** page, so it is necessary to handle entertainment expenses as a manual adjustment – see the section Subtractions from Income, on page 102
- 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 **51**



### ***Schedule C – Car and Truck Expenses***

- In the Tax-Aide program, only **mileage, personal property taxes, and vehicle loan interest** can be claimed as vehicle-related expenses, except for ride-share drivers, as discussed below. *Actual operating expenses*, such as fuel, maintenance and repairs, and depreciation are **out-of-scope**.
  - o For 2018, the rate is \$0.545 per mile
  - o It is critical for the counselor and taxpayer to understand which work-related mileage is not deductible (commute miles) and which is (business miles). Within the taxpayer’s metropolitan area, miles driven between home and a regular or main job site are *commute miles*; miles driven between home and a second job location are similarly *commute miles*; and miles driven to a temporary work location when the taxpayer doesn’t have a regular or main job at another location are also *commute miles*. That means that business miles are the following, as described in Chapter 4 of [Pub 463, Travel, Entertainment, Gift, and Car Expenses](#):
    - If the taxpayer had one or more **regular places of work**, then any travel between home and a temporary work is considered to be business miles, whether that temporary location was local or not.
    - Travel from **one place of work to another place of work** is always business miles.
    - If the taxpayer had **no regular place of work** but ordinarily worked in the metropolitan area where they lived, they can deduct daily transportation costs (miles, tolls, etc.) 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.]
  - o If a **taxpayer’s home** is their principal place of business, then all mileage driven to work locations is business mileage; *however*, to establish the home as the principal place of business, the taxpayer must claim a *home office*, which is **out-of-scope**.
    - In such a case, the taxpayer should be told of the option of going to a paid preparer who can claim the home office deduction and all the mileage.
  - o In addition to claiming mileage, all drivers may claim the following expenses, as applicable:
    - A **prorated** portion of the CA Personal Property Tax (VLF). For example, if the VLF is \$200 and business miles are 40% of total miles, then \$80 could be claimed
      - This is entered on the page **Schedule C Expenses** (select “General Expenses” on the Schedule C menu page), on the “Taxes and licenses” line
      - The Schedule A deduction for VLF must be reduced by the amount claimed on Schedule C
    - A **prorated** portion of interest expense for a loan used to purchase the vehicle
      - This is entered on the page **Schedule C Expenses** (select “General Expenses” on the Schedule C menu page), on the “Other Interest” line
      - Note that monthly payments consist of principal plus interest; only the interest is deductible
      - Interest expenses related to a *leased* vehicle are **out-of-scope**
  - o For drivers of **ride-share services** such as Uber and Lyft, special rules apply.
    - All miles driven with a customer, or while available and waiting to be assigned a customer, or while driving to meet an assigned customer, are business miles.
    - The following may be claimed in addition to standard mileage, prorated VLF, and prorated interest expense; enter these as “Other Expenses”:
      - If the taxpayer pays for Rideshare coverage through a rider [special provision] on his/her vehicle insurance, that is fully deductible.
      - If the taxpayer pays specifically for a roadside assistance plan, a **prorated** portion of that expense can be claimed.
      - A **prorated** portion of car washes and car detailing
      - Snacks and water offered to passengers
- Information about vehicle expenses is entered on the **Schedule C Car and Truck Expenses** page [Income > Profit and Loss from a Business > Car and Truck Expenses]; see [Page D-19 of Pub 4012](#)

### ***Schedule C – Other Expenses***

- Other Expenses are entered individually, on the **Schedule C Other Expenses** page [Income > Profit and Loss from a Business > Other Expenses]. Some relevant rules:
  - o Landline telephone service: How landline costs are handled depends on what type of service is offered:
    - If the service offered is a basic (local) package plus additional charges for long-distance phone calls, then the cost of the basic telephone service, including taxes, is considered 100 percent personal, so no

portion can be deducted on *Schedule C*. The cost of itemized long distance phone calls that are business-related, however, can be deducted.

- If the service offered includes **unlimited** long-distance phone calls, then *the taxpayer may deduct the prorated portion of the total phone cost that is business-related*.
  - The taxpayer must be prepared to provide written supporting information to the IRS, if challenged. That could be a log of business or personal phone calls made, for example. Without such documentation, the IRS will disallow all costs.
- The cost for an additional phone line used only for business purposes is fully deductible
- **Mobile (cell) phone:** Allowable (deductible) expenses depend on the type of mobile phone service:
  - For mobile phones that are *not* “smartphones” (that is, they don’t have Internet capabilities, and so don’t include a data package):
    - If the taxpayer has no landline, then mobile phone costs are treated exactly the same as if the mobile phone was a landline, with allowable (deductible) costs depending on whether the phone service includes unlimited phone calls – see above for specifics
    - If the taxpayer has a landline, then all of the costs of the mobile phone are potentially deductible – subtract allocated and/or itemized amounts that are used for personal purposes.
  - For mobile phones that *are* “smartphones” (that is, they do have Internet capabilities, and so do include a data package), all costs should be pro-rated (personal versus business-related) to determine what amount can be claimed as a business expense on Schedule C.
- **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. [Purchase of equipment became *in-scope* beginning in tax year 2015, when the threshold amount was \$500; the threshold amount was increased to \$2,500 beginning in 2016.]
  - For tax year 2018, Tax-Aide taxpayers may **expense** capital items purchased in 2018 whose cost was under \$2,500, including sales tax and shipping costs, **if** a statement is included with the return that the taxpayer has elected to do so.
  - The statement should be entered on an **Election Explanation** page [Miscellaneous Forms > Explanations > Elections Explanations], with the title “Section 1.263(a)-1(f) de minimis safe harbor election,” and the note itself should consist of the the taxpayer's name, address, and taxpayer identification number (SSN or ITIN), plus “I am making a de minimis safe harbor election under §1.263(a)-1(f) for the purchase of equipment with the cost of \_\_\_\_\_ “.
- **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**; see the section Schedule A - Casualty and Theft Losses – out-of-scope (Line 15) on page **78** for details.
- Resources:
  - Chapter 11, Other Expenses, of [Pub 535, Business Expenses](#), has more information on allowable expenses

### **Schedule C – Final Step**

- After all income and expenses have been entered, for all Schedule Cs, then from the Income menu, create a PDF (“print”) to check that the net profit(s) are what was expected. (Normally the taxpayer will have calculated the net profit him/herself, or at least totaled income and expenses.)

### **Health Insurance Costs as a Business Expense**

- Health insurance premiums paid by the taxpayer covering the taxpayer, spouse, and/or a child under the age of 27, including LTC premiums, **are allowable** as an expense for those who are self-employed. While such expenses are entered on the **Schedule C – Expenses page** (click on “General Expenses” from the Schedule C menu), these costs will *not* show on the printed Schedule C. Instead, such expenses go on Line 29 of Schedule 1 (limited by the amount of profit on Schedule C), and any excess will automatically flow to Schedule A, as medical expenses for itemization.
  - Prior year returns – 2017, 2016, and 2015 – can be amended to take this deduction.
  - Further information is in the section Schedule 1, Line 29 - Self-Employed Health Insurance (SEHI), on page **65**

**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
  - 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
  - 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)
  - Click “Continue” to finish the page

**SCHEDULE 1, 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 may include a Form 1099-INT and a Form 1099-DIV. Those other forms are handled as discussed above – see Line 2 - Taxable and Tax-Exempt Interest, on page [32](#), and Line 3 - Dividends, on page [34](#), respectively.
- Separate management or investment fees, on the broker’s statement, cannot, as of January 1, 2018, be claimed as an itemized deduction on the federal Schedule A. It is part of the category of deductible expenses that were subject to a 2%-of-AGI reduction; the entire category has been eliminated.
  - **Note for CA state returns:** California conforms to federal Schedule A deductions *as of 2015*, so this expense *is* allowable as a CA itemized deduction, subject to a 2%-of-AGI reduction
    - TaxSlayer handles such “no longer valid for federal, but possibly valid for states” expenses by continuing to have them **manually** entered in the federal itemization section. For details, see page [79](#).
- **Note for CA state returns:** CA does not recognize HSA trusts – gains and losses incurred in the trust are currently reportable for CA - see Health Savings Accounts in CA, page [105](#)

**Out-of-scope**

- The following are *out-of-scope* and make the return *out-of-scope*
  - Taxpayers who day trade or trade in futures and options
  - The sale of bonds acquired by other than purchase (for example, inheritance or gift)
  - A tax return for, or involving a dependent child with more than \$2,100 of investment income, including gains on the sale of stock
  - If the taxpayer has received Form 2439 (notice to shareholder)
  - 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)
  - If the taxpayer has margin interest (is borrowing money from the broker, to purchase securities, and is itemizing)
  - Sales paid for with virtual currencies, such as bitcoin
  - **Note:** [Page D-25 of Pub 4012](#) lists *out-of-scope* adjustments to basis [N, Q, X, R, S, and C], any of which make the entire return *out-of-scope*

**Summarization**

- Transactions on a Form 1099-B are typically entered into TaxSlayer in *summarized* format. 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”).
  - If entering a summarized transaction, also check the “M” box near the bottom of the Adjustments section of the TaxSlayer page
- **Tax-Aide policy:** Broker’s statements that are entered into TaxSlayer in a summarized format will **not** be scanned and attached to an electronically-filed return, nor copied and mailed to the IRS in paper format. Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return, 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”; then, on the **Schedule D Capital Gains** menu page, select “Capital Gains and Loss Items”. On the **Capital Gains Transaction** page, complete the needed information.
  - If at least one item already exists, you will need to click “Add new” on the Capital Gain/Loss entry grid to get to the **Capital Gains Transaction** page
- **CA legal note:** Because CA is a community-property state, it doesn’t matter, on a MFJ return, whether you indicate that the capital gains transaction belongs to the taxpayer, spouse, or is a joint account.
- If you are entering a summary line for a group of transactions (type A, B, D, or E), check the “M” box near the bottom of the TaxSlayer page, “Reporting Multiple Transactions on a Single Row”
- For Description of Property (15 characters or less):
  - If multiple transactions are being summarized, enter the broker’s name (for example, “TIAA” or “Scottrade”).
    - Do **not** add “M” at the end of the broker’s name; instead, after entering all dollar amounts, check the “M” box near the bottom of the Adjustments section of the TaxSlayer page
  - For a single transaction, enter the number of shares and the symbol for the stock or bond (for example, “100 USCBX”)
- For Date Acquired:
  - If multiple transactions are being summarized, then check “Alternate Option” and from the “ – Select if Applicable - ” box, select the appropriate option (groups “A” and “B” are short-term, groups “D” and “E” are long-term)
    - If a mix of inherited and non-inherited long-term sales, select “Various – Long Term”
  - For 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; otherwise, enter a “best guess”.
- For Date Sold:
  - If multiple transactions are being summarized, then pick the date of sale for *any* transaction, and enter that date
  - For a single transaction, enter the date sold on the Form 1099-B
- 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 very rarely be necessary to manually total the transactions in a group.
- The cost basis type (oddly enough, in the “Sales Price” section) 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)
- For Cost [legal term is “basis” or “cost basis”]:
  - For group A and D transactions, the cost (basis) will *always* be shown on the broker’s statement
  - For group E transactions, the cost *may* be shown on the broker’s statement; if it is, the taxpayer may use that basis, or may [infrequently] have their own documentation 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, but this may be unsuccessful if the security involved was transferred in from another broker.
    - 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/](http://bigcharts.marketwatch.com/historical/) or [finance.yahoo.com/lookup/](http://finance.yahoo.com/lookup/)
    - If all else fails, enter zero as the basis and advise the taxpayer that **the return can be amended when a basis is determined, within the next three years.** (If the taxpayer is in the 10% or 12% tax bracket, then no amendment may be necessary because capital gains for such taxpayers have at tax rate of zero.)
      - **Note:** If the taxpayer has Social Security income, then capital gains *can* increase taxable income *even though the taxpayer is in the 10% or 12% tax bracket.* That’s because capital gains, on page 1 of 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

- o Inherited property
  - The basis for inherited property 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, Allocation of Increase in Basis for Property Acquired From a Decedent provided by the estate. If so, use the basis provided and the original purchase date. (Form 8939 is not required if the taxpayer has the necessary information.)
    - **Note for CA state returns:** The basis for CA returns, in all cases, is FMV at the date of death. An adjustment would be needed on CA 540 Schedule D if a Form 8939 issued in 2010 did not use FMV; if that is the case, the return is *out-of-scope*.
- Adjustments are entered near the bottom of the TaxSlayer page. (For most entries, no adjustment will be needed, other than code M, “Reporting Multiple Transactions on a Single Row”.)
  - o Entering a negative adjustment 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*.
    - For code W, a wash sale, enter the amount as a *positive* number.
  - o [Pages D-24 and D-25 of Pub 4012](#) describes how to handle adjustments
  - o **Note:** Any adjustments recorded in TaxSlayer should also be noted on the paper Form 1099-B, so that the two match.
- When done with the transaction, click “Save & Enter Another” if there are any more transactions to enter from the Form 1099-B being worked on, or another 1099-B to be entered; otherwise, click “Continue”.

### 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. The easiest way to do so is “print” the Schedule D from the **Income** menu page.

### 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”
  - o Because there is one field to enter the *total* of all entries, a note (see page 9) is recommended for *each* entry on this page
- If there is any state tax withholding, see the section State Tax Withheld, on page 109

**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

- The capital loss carryforward amount is one of the items included in the TaxSlayer Carryforward from 2017.
  - o If the taxpayer doesn’t have Carryforward from 2017 (for example, a paid preparer did the 2017 tax return), then 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 [Income > Capital Gain and Losses > Other Capital Gains Data (Including Capital Loss Carryforward)]
  - o 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)
  - o For lower-income taxpayers, if there is a capital loss showing on the prior year’s Form 1040, on Line 13 [tax year 2017 and earlier] (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.

## Federal Section - Income

- 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](#)
- **Note for CA state returns:** The federal and CA capital loss carryover amounts can be different, due to HSA or other rules, although this is rare.
  - If the two amounts are not the same, go to the State Section: click on “Miscellaneous Forms”, then go to the **California Schedule D Capital Gain or Loss Adjustment** page, and enter the CA carryover amount.
    - If an amount is entered, a California Schedule D will be included in the PDF for the return.
    - The *difference* between the federal and CA amounts will appear on line 13 of Part I of CA Schedule CA, in either column B or column C.

## Sale of 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.**

**Note:** Per Pub 535, if the taxpayer received a Form 1099-S, the taxpayer **must report the sale**, which means that the taxpayer **must file a tax return**, even if the taxpayer otherwise would have no filing requirement.

- Chapter 15, “Selling Your Home”, of [Pub 17, Your Federal Income Tax](#), has general information about determining whether there is a taxable gain on the sale of a home.
  - A home can be a houseboat, mobile home, condo, or co-op
  - Sale of a second home – for example, one that has been inherited – *can* be in-scope if, while owned by the taxpayer, it was always a residence, not a rental nor used for business.
- Special circumstances:
  - If any portion of the 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 Schedule 4, Line 60b - First-Time Homebuyer Credit Repayment, Form 5405, on page [92](#)
  - Sale of the home within two years of the death of a spouse affects both the exclusion amount and the ownership and use tests for claiming an exclusion – see Chapter 15 of Pub 17 for details.
- In general, a single person can claim an exclusion of up to \$250,000 on the gain on the sale of a main home, and a married couple can claim an exclusion of \$500,000. However, to claim the exclusion, 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
    - For MFJ returns, 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
  - *Partial* exclusion is possible under some circumstances, such as a change of employment. Details can be found in [Pub 523, Selling Your Home](#)
    - A return involving *partial* exclusion is **out-of-scope**; because the potential tax savings are likely to be significant, the taxpayer should be referred to a paid preparer.
- When determining the proceeds from the sale of a home, subtract the sales commission paid by the seller, as well as other *transactional* costs of the sale that were paid by the seller.
  - **Note:** Taxpayers often want to reduce their reported proceeds by the amount of a mortgage or mortgages that they have paid off at the time of the sale. *Do not make that adjustment.* The presence of a mortgage [or a lien on the home] does not affect the determination of the amount of gain on the sale of the home.
- 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)

- o The taxpayer needs to provide the basis information; calculation of the basis by a counselor is *out-of-scope*
  - **Note:** the basis is irrelevant if the selling price is less than the \$250,000 or \$500,000 exclusion
- o If a married couple owned the home together (both names were on the title), and one of the two has died, then, by law, the basis of the home is adjusted at the time of the death. The exact adjustment depends on the state.
  - **CA legal note:** Because CA is a community-property state, the basis of the entire home changes to the FMV at the time of the death, assuming that the both spouses owned the home.
- If, after using the basis provided by the taxpayer, and determining the exclusion, *there is still a taxable gain on the sale of the home*, the taxpayer may be better off seeing a paid preparer who can help with determine the basis of the home.
  - o For example, if the basis is understated by \$10,000, the taxpayer could end up paying several thousand dollars more of taxes than was in fact owed.
- To enter information into TaxSlayer for the sale of a home, *do not use the Sale of Home* page. Instead, report the sale on the **Capital Gains Transaction** page [Income > Capital Gain and Losses > Capital Gains and Loss Items], as described above
  - o If an exclusion can be claimed, as discussed above, then use code H for the exclusion amount, and enter the amount as a negative number.
    - The amount will be -250,000 or -500,000 **if**, after the exclusion, there is still a profit on the sale. Otherwise, the amount will be a negative number equal to the net proceeds from the sale
  - o **Note for CA state returns:** CA conforms to the federal rules for sale of a home, 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
  - **Note for CA state returns:** If the taxpayer had CA tax withheld from the sale they will receive CA Form 593
    - o In the State Section, go the Payments menu, then **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 CA Form 540, on page 3, line 73.
    - o In the Federal Section, **if (and only if) the taxpayer is itemizing on the federal return**, another adjustment is needed, because the entry in the State Section is not carried to Line 5a of Schedule A (Income Taxes):
      - Go to the **Payments - Other State Withholdings** page [Federal > Payments & Estimates > Other State Withholdings], and create an entry for any state **other than California**; the dollar amount is the CA tax withheld amount on CA Form 593. [This gets the amount onto Schedule A while avoiding carrying it *twice* to CA Form 540.]
        - When starting the E-file section, TaxSlayer will offer a reminder that there is state withholding without a matching state return; ignore that reminder.

## **SIMPLE SCHEDULE K-1 FORMS, INCLUDING 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 and expense 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, 2018. In that example, all amounts on that K-1 form should be reported on the taxpayer's 2018 tax return.

## Federal Section - Income

- 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
  - If no Schedule E exists, TaxSlayer provides a link to create one. While this can be deferred until later, generally it's best to do so immediately – see the Schedule 1, Line 17 - Rental Real Estate and Royalties section, on page [58](#).
    - 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, enter that amount on the **Form [1116](#) - Foreign Tax Credit** page [Deductions > Credits Menu > Foreign Tax Credit]
  - If there is more than one K-1 form showing foreign taxes paid, only the *total amount* is entered
  - An amount entered on the **Form [1116](#) - Foreign Tax Credit** page will go to Schedule 3, Line 48, Foreign Tax Credit, on Form 1040, as discussed on page [84](#)
    - If foreign taxes were included on one or more Form 1099-INTs or 1099-DIVs, and entered into TaxSlayer at the same time that other information on those forms was entered, do *not* enter the same amounts again on Form 1116 – TaxSlayer will automatically add those amounts to come up with full total that will be posted to Schedule 3, Line 48
    - If the total – on all forms - of foreign taxes paid appears likely to exceed \$300 (\$600 for a joint return), see the discussion on page [84](#).
  - **Note:** Form 1116 is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a menu page within the return.

### **SCHEDULE 1, LINE 14 - OTHER GAINS OR LOSSES (*out-of-scope*)**

### **SCHEDULE 1, 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 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 income or royalty income was reported on a Schedule K-1 form:
  - If the K-1 form has rental income or loss (box 13), the return is *out-of-scope*
  - For royalty income, enter the information from the K-1 form as discussed in the section Simple Schedule K-1 Forms, Including Prepaid Funeral Plans, on page [57](#); do **not** enter it directly on a Schedule E
- If rental or royalty income is reported on a Form 1099-MISC, that income is **not** entered directly on a Schedule E. Instead, it is entered on a **Form 1099-MISC** page, which is reached from the main **Income** page in the Federal Section.
  - If income reported in box 2, "Royalties", is due to the taxpayer's own personal services, such as being an author or entertainer, then it belongs on a Schedule C, not a Schedule E. **Enter the amount in [Box 7](#)** in TaxSlayer, not in Box 2, so that TaxSlayer carries the income to the correct schedule.
    - **Note:** On Schedule C, business code 711510 is for "Independent artists, writers, & performers"
  - If there are dollar amounts in any boxes in addition to box 1, "Rents", and box 2, "Royalties", then see the section Form 1099-MISC, on page [47](#), for how to handle those amounts.
- Cash payments for rent ["cash" includes checks and credit cards] for which there is no Form 1099-MISC may be in-scope; there cannot be any associated expenses
  - 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*
  - Rental income involving buildings, even if as minor as an apartment over a garage or a room in a home, makes 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 when the taxpayer has rented for less than 15 days during the year, 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 sharing one's house through Airbnb and similar companies may or may not be rental income (in some cases it is business income, reported on Schedule C). This is not a determination to be made by a preparer. Unless the total days involved is less than 15, the return is **out-of-scope**. Recommend that the taxpayer go to a paid preparer or use tax-preparation software.
- Income from renting things that one owns, other than a home, should be reported on a Schedule C, not on a Schedule E.
- A cost-sharing agreement, where a roommate pays the taxpayer, who in turn pays a landlord; or where a member of the taxpayer's household contributes money toward the cost of maintaining the home, is *not* rental income.
- If there is rental or royalty income that is in-scope, as discussed above, a Schedule E is needed. Go to the **Income** menu page in the Federal Section, and click "Rents and Royalties (Schedule E)"
  - On the **Schedule E Required Information** page, if the box regarding Forms 1099, such as a Form 1099-MISC, must be checked, then the return is **out-of-scope**. (Otherwise, click "Continue".)
  - TaxSlayer then goes to the **Schedule E Rent and Royalty Information** page
  - The "Type" field determines what information is required. If "Royalties" is the type, then address information is not required
  - Rental or royalty income received on a Form 1099-MISC is entered separately, as discussed above, on page [47](#), and should **not be included** in either rental or royalty income amounts which are entered directly on the Schedule E form in TaxSlayer.
    - This is true even though, for royalties, the "Royalty payments received" field does not explicitly say to exclude income reported on a Form 1099-MISC.
  - Similarly, royalty payments on a Schedule K-1 form are entered separately in TaxSlayer, as described above, on page [57](#), and should not be entered directly on Schedule E.
  - **Cash payments** for rent or royalties should be entered on the field "Rental payments received" (or "Royalty payments received")
  - For rentals, enter the type (as discussed above, anything but "Land" is probably **out-of-scope**), the property address, the number of days the property was rented at fair rental value, and the number of personal use days
    - The presumption is that whatever price is normally charged is the fair rental value. But, for example, if the rental price were reduced for a friend or family member, or as a favor to someone, then that would *not* be counted as a regular rental day. (The income from *all* days is reported, whether the fair rental value is charged or not.)
    - "Personal use days" are days on which an owner resided on the property, regardless of the reason (as, for example, for maintenance or to make improvements)
  - It is not necessary to determine if the taxpayer "actively participated", nor to check the related box.
  - After the **Schedule E Rent and Royalty Information** page is done, and "Continue" is clicked, TaxSlayer goes to the **Schedule E Rentals and Royalties** menu page. Click "Continue"
    - Expenses on a Schedule E are **out-of-scope**, except for active duty military members, so there is no reason to select "Depreciation", "Expenses", or "Car and Truck Expenses"
- **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 the Form 1099-MISC into TaxSlayer, to match IRS records; create a Schedule E where the rental income will be recorded; and on that Schedule E, enter a matching amount as an Additional Expense, labeled "Less than 15 day exclusion", so that the net income on the schedule is zero.

### **SCHEDULE 1, LINE 18 - FARM INCOME (out-of-scope)**

### **SCHEDULE 1, 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 varies by state), go to the **Unemployment Income** page [Income > Unemployment Compensation > Add or Edit a 1099-G]. Complete the form:
  - Check the appropriate box at the top to indicate whether the payment was made to the Taxpayer or the Spouse

## Federal Section - Income

- 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 process 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 Schedule 1 as unemployment compensation
- **Note for CA state returns:** Unemployment and family leave payments are NOT taxable by CA
  - o TaxSlayer makes the adjustment automatically on California Schedule CA
- If there were **repayments, do not** adjust the dollar amounts of payments to the taxpayer in TaxSlayer. Enter the dollar amounts into TaxSlayer exactly as they appear on the Form 1099-G. Amounts repaid are reported separately
  - o Amounts repaid during the **same year** that benefits were received are entered on **Repayment of Unemployment** page [Income > Unemployment Compensation > ...], and will reduce the taxable income on Line 19 of Schedule 1
  - o Any amount repaid for a **prior year** is *not* entered on this page; it must be deducted on Schedule A, as a miscellaneous deduction, **if over \$3,000**; it does not offset any amount received for the current year.
    - Beginning with tax year 2018, repayments of **\$3,000 or less** are **not** allowed as a deduction on the federal Schedule A; this is part of the group of deductions subject to a 2%-of-AGI reduction that can no longer be claimed.
    - **Note for CA state returns:** Repayments of any amount are **not** deductible as a CA itemized deduction because the original payment was not taxed by CA. If a repayment of **over \$3,000** is entered on Schedule A, **an adjustment (reduction of itemized deductions)** is needed on CA Schedule CA.

## SCHEDULE 1, LINE 21 - OTHER INCOME

- Line 21 of Schedule 1 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, income from outside of the United States not reported on a W-2 or other U.S. tax form, and recovery (repayment/reimbursement) of expenses claimed in prior years as itemized deductions
  - o **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**.
- If there is more than one item on Line 21, TaxSlayer generates a supporting statement that is sent to the IRS. This statement will be included in a PDF of the return when the print set specifies that the PDF includes statements and worksheets.

## **Gambling Winnings (Form W-2G)**

- If the taxpayer has a Form W-2G, go to the **W-2G Gambling Winning** page [Income > Other Income > Gambling Winnings (W-2G)].
  - o Check the box for Taxpayer or Spouse, if a MFJ return
  - o If the Payee's Address information does not match the information on the paper Form W-2G, change the information on the TaxSlayer page
  - o The Payer's federal ID number (EIN) is required. If, when this is entered, TaxSlayer then fills in the rest of the Payer Information section, verify that the payer's name and address match the Form W-2G exactly, and, if not, make changes
  - o 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
    - **Note for CA state returns:** 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; use either "999999" or "000000" if the State ID number is missing from the paper Form W-2G
  - o 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, then after clicking "Continue", 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 [Income > Other Income > Other Income Not Reported Elsewhere]

- o For the description, enter “Gambling - not on W-2G”
- **Note for CA state returns:** *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.
- **Note for CA state returns: Indian tribal winnings** reported may require special treatment
  - o 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)
  - o 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 **101**.
    - If the taxpayer is itemizing on the federal return, and if the taxpayer has entered any losses on Line 16 of Schedule A to offset the Indian tribal winnings, then make an adjustment – a subtraction – to the CA itemized deduction amount – see Not Allowed by CA as Itemized Deductions on page **105**

### **Gambling Losses**

- Gambling losses can be claimed as a Schedule A deduction, but the amount of losses claimed cannot be greater than the amount of winning reported.
  - o Gambling losses reported on Schedule A *do not have to be from the same source (location or type of game) as the winnings*.
- The taxpayer is responsible for having *written substantiation* for the amount claimed for losses.
  - o As with other matters, Tax-Aide preparers should take the word of the taxpayer as to the amount of losses. (Customers who play at a casino using a customer card can get a printout from that casino, showing “cash in” – bets/losses, and “cash out” – winnings.)
- Gambling losses appear on line 16 of Schedule A.
  - o **Note:** Gambling losses reported on Schedule A only have value to the taxpayer **if** that the taxpayer itemizes. If the taxpayer takes the standard deduction on both the federal and state returns, then gambling losses have no value.
  - o **Note:** It is typical that gambling losses exceed gambling winnings, and so equal amounts can be reported on Form 1040. This will *not* necessarily mean no impact on the taxpayer. Specifically:
    - The increase in AGI can reduce or eliminate credits (EIC, for example) or reduce ACA subsidies.
    - Social Security income can become (more) taxable, up to 85%.
    - If the taxpayer would otherwise have used the standard deduction, and would have owed taxes, then taxable income will increase by some amount (potentially almost as much as the standard deduction), and taxes owed will increase accordingly.
- To enter gambling losses, there are **two options**:
  - o Losses can be directly entered on a **W-2G Gambling Winning** page;
    - **Note:** On this page, it’s okay to enter a loss amount in excess of winnings, including combining all losses into a single entry. TaxSlayer will reduce the loss amount on Schedule A so that it doesn’t exceed the total of all gambling winnings reported on
  - o Or, go to **Schedule A - Miscellaneous Deductions** page [Deductions > Itemized Deductions > Miscellaneous Deductions], and enter the amount on the line “Gambling losses to the extent of gambling winnings”.
    - **Warning:** TaxSlayer does *not* reduce the amount of losses reported on this page, so that the total reported on the return equals the total amount of gains. If you enter *excess* losses on this page, TaxSlayer will issue a warning when you go to the E-file section, but will not block e-filing. A return that is e-filed with losses in excess of winnings will reject.
- **Note for CA state returns:** If gambling losses include any California Lottery losses, make an adjustment to remove such losses from the CA return:
  - o In the State Section, make a subtraction to the CA itemized deduction amount in the amount of these reported losses– see the section Not Allowed by CA as Itemized Deductions on page **105**.

### **1099-MISC Income on Line 21 of Schedule 1**

- The procedure for entering a paper 1099-MISC document into TaxSlayer, when the income is to go on Line 21, Other income, of Schedule 1, is described in the section Form 1099-MISC, on page **47**

- **Note for CA state returns: 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 reported on a Form 1099-MISC 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 **101**.
    - **Note:** Requirements for excluding **W-2** tribal income (earned wages) are less stringent as of January 1, 2018, but requirements related to 1099-MISC payments *did not change*.

### **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**
- Beginning with tax year 2018, withdrawals from 529 plans can also be used for K-12 expenses.
- **Note for CA state returns:** CA does not conform to this expansion. If withdrawals were used for K-12 expenses, *they are taxable on the CA return*.
  - **Counselors must ask taxpayers whether expenditures were for college-level expenses or for expenses at the K-12 level.**
  - Expenditures that are taxable by CA are entered on CA Schedule CA, as discussed in the section Additions to income, on page **101**

### **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 [Deductions > Adjustments > Medical Savings Account]
- Go to the "Long Term Care (LTC) Insurance Contracts" section of the page.
  - For MFJ returns, note that the **policyholder's** name on the Form 1099-LTC can be different from the **payer's name** and from the **insured's name**.
  - If the first box, "Check here if anyone other than you received payments ...", 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 appropriate 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.] Then:
  - 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 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 none of these 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 there is no amount in box 1 of the Form 1099-LTC, click "Continue"; otherwise, for the amount in the box:
  - 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 2018 tax-free threshold of \$360 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% threshold [for tax years 2014 through 2016, the threshold was 10% for those under 65 years of age].
  - 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 [Deductions > 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.**
  - TaxSlayer puts the difference on Line 21 of Schedule 1, as Other Income
  - For the penalty:
    - *If* the excess distribution (the difference) was made after the beneficiary become disabled, became age 65, or died, then check the exceptions box
    - If there is no exception, there will also be a 20% additional tax. TaxSlayer carries this amount to Schedule 4, Line 62, Taxes
- **Note:** If a distribution is used for qualified medical expenses, those expenses cannot be put on Schedule A.
- **Note for CA state returns:** CA does not recognize HSA contributions, distributions, or expense deductions – see the section Health Savings Accounts in CA, page [105](#).

### 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 tax year 2018, including an amount in box 3 (interest). See the screening sheet in [Pub 4012, on page D-58](#)
- Cancellation of credit card debt results in taxable income unless an exception, such as insolvency, applies - [Pub 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments](#), has details.
  - However, if the taxpayer elects to use an exception to make the COD amount non-taxable, then the return is *out-of-scope*.
- To enter the amount of credit card debt that was cancelled, as taxable income, go to the **Form 1099-C** page [Income > Other Income > Cancellation of Debts > Cancellation of Debt (Form 1099-C)]; this is described in [Pub 4012, on page D-60](#)
  - You should *confirm with the taxpayer* that the taxpayer agrees with reporting this amount as income *before beginning the tax return in 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, should the taxpayer raise that 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.
  - 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.

### ***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 [Income > Other Income > Income Not Reported Elsewhere] and enter this income
- **Note:** If the taxpayer was required by their employer to **turn over jury duty pay to the employer**, then the pay is still reported on Line 21 of Schedule 1, but an adjustment is made as described in the section Schedule 1, Line 36 – Write-In Adjustments, on page [68](#).

## **ADJUSTMENTS TO INCOME**

### **SCHEDULE 1, 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; the maximum for 2018 is \$250.
- Refer to [Pub 4012, page E-3](#), for rules
  - **Note:** Starting with tax year 2016, professional development expenses can be used for this adjustment.
- The amount is entered on the **Educator Expense** page [Deductions > Adjustments > Educator Expenses]
- Starting in 2017, the amount, which in 2016 was \$250 for each taxpayer who is an educator, is indexed to inflation. However, low inflation resulted in the 2017 and 2018 amounts remaining at \$250.
- **Note for CA state returns:** The Line 23 amount is NOT recognized by CA as an adjustment to income
  - TaxSlayer automatically adjusts the CA return so that it ignores the entry on Line 23 of Schedule 1 (the adjustment is posted to CA Schedule CA, Part I, line 23)
  - The amount can be claimed as an unreimbursed employee expense for CA purposes, *if* the taxpayer is itemizing on the CA return, and *if* the expense is for employee development
    - This itemized deduction is part of a group of CA-only deductions that are subject to the 2%-of-AGI reduction. For more information, see page [79](#).

### **SCHEDULE 1, 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

### **SCHEDULE 1, 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-5 through E-7](#); more information is in [Pub 969](#)
  - 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 [Deductions > Adjustments > Health Savings Account]
  - 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.
  - Contributions designated for 2018 may be made as late as April 15, 2019.
  - **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."
  - 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.
- **Note for CA state returns:** CA does not recognize HSAs – see Health Savings Accounts in CA, page [105](#). TaxSlayer automatically makes the adjustment on line 25 of Part I of CA Schedule CA.

**SCHEDULE 1, LINE 26 - MOVING EXPENSES (out-of-scope)**

- As of tax year 2018, moving expenses paid by the taxpayer *are not deductible* on the federal return, except for military personnel.
  - **Note for CA state returns:** CA does not conform to this change; moving expenses can be claimed by non-military personnel
- Returns that claim a deduction for moving expenses are *out-of-scope* unless counselors have Military certification, which includes training on this topic

**SCHEDULE 1, 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)

**SCHEDULE 1, LINE 28 - SELF-EMPLOYED SEP, SIMPLE PLANS (out-of-scope)****SCHEDULE 1, LINE 29 - SELF-EMPLOYED HEALTH INSURANCE (SEHI)**

- The cost of health insurance premiums, including Medicare and LTC premiums, are allowable as an expense (deduction/adjustment) for taxpayers who have a Schedule C (self-employment) and have a net profit.
  - The **SEHI deduction IS in scope for the 2018 tax year**. In addition, prior year returns – 2017, 2016, and 2015 – can be amended to take this deduction.
  - Even if the taxpayer is itemizing, and even if the taxpayer's medical expenses exceed the 7.5% of AGI threshold, the taxpayer is *always better off taking the SEHI deduction*, since that reduces AGI
- If the tax return has a Schedule C, enter all qualifying health and dental insurance premiums on the **Schedule C – Expenses page** (click on “General Expenses” from the Schedule C menu).
  - TaxSlayer will flow these costs to Line 29 of Schedule 1, to the extent allowed, and any excess will automatically flow to Schedule A, as medical expenses for itemization. (TaxSlayer will show, on the **Self Employed Health Insurance Deduction** page, the following: “\$[whatever].00 has been entered into the Schedule C for Health Insurance Premiums”.
  - If the taxpayer or spouse has paid **Medicare premiums**, and has a Schedule C, enter those premiums into Schedule C, rather than on the **Social Security SSA-1099/RRB-1099 Tier I** page.
  - Similarly, if the taxpayer pays long-term care (LTC) premiums, these should be entered on Schedule C, if there is one, rather than directly on Schedule A.
    - **Note:** The amount of long-term care (LTC) premiums that are deductible depends on age. For 2018, the total that is deductible is \$420 if the person covered by the policy is 40 or younger on December 31 of the tax year; \$780 if 41 to 50; \$1,560 if 51 to 60; \$4,160 if 61 to 70; and \$5,200 if 71 or older.
  - These costs will *not* show on the printed Schedule C.
- Basics:
  - The amount of the adjustment is limited to the net profit on Schedule C (line 12 of Schedule 1), minus the self-employment adjustment on Line 27 of Schedule 1.
    - TaxSlayer follows this rule *if* allowable health insurance premiums are entered in Schedule C. (Any excess entered in Schedule C will flow to Schedule A, as medical expense.
  - **Age is not a factor** – the taxpayer **can** be older than 65.
  - The policy can be in the name of the taxpayer or of the spouse, or both, or in the name of the business
  - The allowable costs are only for **premiums**, not for deductibles, co-pays, self-pays, or other health-related costs.
  - Allowable premiums include those for dependents under the age of 27 as of year-end, even if the child is not the taxpayer's dependent
    - “Child” includes stepchild, adopted child or foster child
- The types of insurance that are allowable for this deduction include **Medicare**, Medicare supplemental policies, LTC insurance, and private health insurance.
  - Private health policies must be in the name of the taxpayer or the business. Even if a taxpayer pays a monthly amount for employer-provided insurance, those costs are not deductible because the policy is in the name of the employer, not the taxpayer, and is subsidized by the employer.
  - Premiums paid for dental and other types of health insurance, such as vision, catastrophic, and travel insurance for medical costs, *are* deductible, as long as these policies are not subsidized by an employer.
    - Premiums for life or disability insurance are *not* deductible.

## Adjustments to Income

- o While premiums paid by the taxpayer for **ACA-subsidized** health insurance (“Marketplace” policies) *are* allowable costs, they are **out-of-scope** for the Tax-Aide program because of the complexity of calculating the amount of insurance premiums that the taxpayer is responsible for. [The subsidy amount - APTC - depends on the taxpayer’s AGI, the AGI is calculated using the SEHI deduction, and the SEHI deduction is calculated by subtracting the amount of the subsidy the taxpayer is getting.]
  - The taxpayer has three options: not reporting such costs on the tax return; claiming such costs on Schedule A, if itemizing; or having the return done by a paid preparer or using tax software.
  - If the taxpayer buys **unsubsidized** health insurance through an ACA marketplace, those premiums *are* allowable for the SEHI adjustment.
- o If the Public Safety Officer exclusion is claimed (up to \$3,000 of retirement plan distributions can be excluded from taxable income, as discussed on page **41**), the insurance costs that are used for exclusion cannot be used for the SEHI adjustment, since they were essentially paid using nontaxable dollars.
- Premiums paid for health insurance coverage during a month where the taxpayer could participate in an employer-subsidized health plan *are not allowable for this deduction*, whether or not the taxpayer did participate.
  - o But coverage from a *former* employer does not affect what can be claimed – for example, if the taxpayer has a COBRA policy that is part of a separation package, with part of the policy costs paid by the former employer, the taxpayer can still claim the premiums that he/she paid.
- There are two reasons to enter premium costs on Schedule C, rather than directly on the **Self Employed Health Insurance Deduction** page [Deductions > Adjustments > ...].
  - o First, on the **Schedule C – Expenses page**, you can *separately* enter multiple health insurance costs, and TaxSlayer will total them. This helps make sure that all health insurance premiums were entered, and prevents totaling errors.
  - o Second, TaxSlayer requires, on the **Self Employed Health Insurance Deduction** page, that the amount of “net profit and any other earned income from the trade or business” be entered. *If* the total for premiums is entered on the SEHI Deduction page, TaxSlayer uses the net profit figure on that page, *rather than the actual Schedule C profit figure*, in calculating the amount that goes on Line 29 of Schedule 1. This creates another possibility of an error.

### **SCHEDULE 1, 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-INT, as described on page **32**
- In some unusual 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 [Deductions > Adjustments > Penalty on Early Withdrawal of Savings or CD]

### **SCHEDULE 1, LINE 31 - ALIMONY PAID**

**Note:** For divorces finalized after December 31, 2018, as well as separations signed after that date, alimony that is paid can no longer be taken as a deduction by the taxpayer making the payments. Nor, for such divorces and separation agreements, will alimony payments be treated as income to the recipient.

- Refer to **Pub 4012, page E-8**, for rules
- Alimony does NOT include child or family support, which are NOT deductible
- Go to the **Alimony Paid** page [Deductions > Adjustments > ...]
  - o The SSN of the person receiving the alimony is required because that person must report the payments as *income*
- **Note for CA state returns:** 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).

### **SCHEDULE 1, LINE 32 - IRA DEDUCTION**

- The taxpayer, and spouse if filing jointly, may each make IRA contributions, subject to age and total compensation income limits, and whether, if there is income reported on a W-2, the employer offers a retirement plan.



- o If *not* filing MFJ, the contribution limit is the smaller of taxable compensation (Line 1 plus Line 11 of Schedule 1 plus Line 12 of Schedule 1) or \$5,500 (\$6,500 if age 50 or older at the end of 2018). If filing MFJ, the contribution limit applies separately to the taxpayer and spouse. \$6,000
  - This dollar limit is for the *total* of contributions to traditional IRA plus contributions to Roth IRAs
  - Contributions to traditional IRAs are not allowed after age 70½; contributions to a Roth IRA have no age limit
- o The maximum IRA contribution is also limited by the taxpayer's AGI – see [Pub 590-A, Contributions to Individual Retirement Arrangements \(IRAs\)](#) for the calculations
- o 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 590-A.)
    - Form 5329 is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a menu page within the return.
- To enter the IRA contribution amount (if MFJ, the total amount for the taxpayer and spouse), go to the **IRA Deduction** page [Deductions > Adjustments > ...]
  - o 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
  - o An IRA contribution can make the return eligible for the Schedule 3, Line 51 - Retirement Savings Contribution Credit (discussed on page **88**); create a note (page **9**) as a reminder to determine, *after* the taxpayer's AGI has been determined, if the taxpayer qualifies for this credit.
- 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.
  - o TaxSlayer calculates this amount.
  - o 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 [Deductions > Adjustments > Nondeductible IRAs] and fill in the form – see the [IRS instructions for Form 8606](#).
      - Form 8606 is one of ten for which - *new as of the 2017 tax year*- a PDF can be created from the **Adjustments** menu with the return.
- Taxpayers that contributed to a traditional IRA during 2018 have the option of recharacterizing their contribution as a contribution to a Roth IRA until they file their return (or April 15, 2019, whichever comes first).
  - o Recharacterizing from a traditional IRA to a Roth IRA is valuable if the taxpayer did not get a benefit from the IRA contribution (see Schedule 1, Line 32, IRA deduction, and Schedule 3, Line 51, Retirement savings contribution credit)
  - o For contributions made on or after January 1, 2018, recharacterizing from a Roth IRA to a traditional IRA is no longer allowed.
  - o If recharacterization makes financial sense:
    - The taxpayer must arrange the recharacterization through their IRA trustee
    - The recharacterization must be done before the return is completed and filed; the taxpayer will have to return after obtaining documentation from their IRA trustee

### **SCHEDULE 1, LINE 33 - STUDENT LOAN INTEREST DEDUCTION**

- For rules, see [Pub 4012, page E-10](#)
- Even if payments are made by others (for example, a grandmother), for tax purposes the payments are treated as if they were made by the taxpayer.
- The taxpayer might not 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). If not, other information from the taxpayer *is* acceptable

## Taxable Income and Tax Calculation

- 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 [Deductions > Adjustments > ...]
- More information, if needed, can be found in Chapter 19, “Education-Related Adjustments”, of [Pub 17](#).
- **Note for CA state returns:** Student loan debt that is canceled or repaid under the Income Contingent Repayment plan, the Pay As You Earn Repayment plan, and the Revised Pay As You Earn Repayment plan as administered by the U.S. Department of Education is excluded from gross income by CA as well as on the federal return.

### **SCHEDULE 1, LINE 34 - TUITION AND FEES DEDUCTION**

**Note:** The tuition and fees deduction *expired* on December 31, 2017.

- o Which Education Benefit is Best?**SCHEDULE 1, LINE 36 – WRITE-IN ADJUSTMENTS**
- A write-in adjustment should be made when the taxpayer received jury duty pay, **reported it on Line 21 of Schedule 1**, 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 [Deductions > Adjustments > ...], select “Jury Duty Pay”, and enter the amount
  - o This amount will appear on the dotted portion of line 36 of Schedule 1
- Everything else that could go on Line 36 (any other adjustment using the drop-down list on the TaxSlayer page) is *out-of-scope*

## **TAXABLE INCOME AND TAX CALCULATION**

### **LINE 8 – STANDARD OR ITEMIZED DEDUCTION**

#### ***Standard Deduction***

- For tax year 2018, the federal standard deduction has increased significantly: \$12,000 for single and MFS filers; \$18,000 for HoH, and \$24,000 for MFJ. Those 65 and older, or blind, get an additional \$1,300.
- The standard deduction is the default in TaxSlayer
  - o If a taxpayer is filing MFS and the taxpayer’s spouse is taking the standard deduction, the taxpayer must *also* take the standard deduction. *Do not enter anything into Schedule A.*
- In two situations the taxpayer is required to itemize:
  - o The taxpayer is filing MFS and the taxpayer’s spouse is itemizing
    - In such a case, go to the **Force Itemized Deduction Instead of Standard Deduction** page [Deductions > Itemized Deductions > Use Standard or Itemized Deduction] and click the button to force the use of the itemized deduction
  - o Either the taxpayer or spouse is a dual status alien or nonresident alien [such returns are *out-of-scope*]
- TaxSlayer automatically selects the **better** of the standard deduction or the itemized deduction, unless the itemized deduction is *forced* for a MFS filing. So there is no loss to the taxpayer (except time) if a counselor enters information into Schedule A but that information is not used. [But if entering that information *clearly* isn’t going to make a difference, *don’t do it.*]
  - o If you want see both the federal standard deduction amount and the calculated federal itemized total deduction, based on input into TaxSlayer, go to the **Compare Standard vs Itemized Deduction** page [Deductions > Compare Deductions]
- **Note for CA state returns:** It’s quite possible (see next section) that the taxpayer will benefit by taking the standard deduction on the federal return but itemizing on the CA return, **particularly if the taxpayer itemized in 2017 but not in 2018**. TaxSlayer determines separately whether itemization is best for the federal return and whether it is best for the CA return.
  - o CA itemization is *not* done in the state section, it’s done by entering detailed information into the itemization section of the *federal* return. **The federal section includes expenses that are in fact not allowable in 2018 on the federal return, but are allowable on the CA return** - unreimbursed employee expenses, for example.

### When to Itemize

- If it is not clear whether it is advantageous for the taxpayer to itemize on the federal return, in general it's best to go ahead and complete Schedule A. That's *in general*. **However:**
  - **Even if an itemized federal deduction is likely to be larger than the standard deduction, DO A REALITY CHECK FIRST.** On the federal return, look at Form 1040, Line 11, Tax, to see if this is zero. If it is zero, then there is no reason to itemize for **federal** purposes
  - **CA process note:** If you conclude that itemization is pointless on the federal return, then check whether the amount on CA Form 540, Page 3, line 64, Total tax, is zero. **If so, there is no point in itemizing for either the federal or state return:** doing so would waste your time and the time of the taxpayer.
- **Note for CA state returns:** The CA standard deduction is significantly less than the federal standard deduction. For 2018, the amounts are \$4,401 if Single or MFS, and \$8,802 for the other filing statuses. So **if** the taxpayer does owe any CA taxes, as discussed immediately above, it's much more likely that itemization is worth doing – or least to enter enough itemized expenses to that line 64 becomes zero.
  - If itemizing for CA, but TaxSlayer calculates that itemizing is not advantageous for the federal return, TaxSlayer won't include the Schedule A in the print packet. So you have to print it separately – this can be done from the **Deductions** menu page in the Federal Section.

### 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 can and 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 [Deductions > Itemized Deductions; or use "Schedule A" in the search box]

### 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, Line 11, 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.
- Medical expenses are not worth entering if they total less than 7.5% of AGI; that is the threshold for deductibility for 2018.
  - Medicare premiums that are withheld from Social Security payments are generally entered on the **Social Security SSA-1099/RRB-1099 Tier I** page; these are included by TaxSlayer as medical expenses.
    - **Exception:** If the return includes a Schedule C, **do not** enter Medicare premiums in Schedule A. Some or all of those costs might be used for the Self-Employed Health Insurance adjustment on Line 29 of Schedule 1, and should be entered on Schedule C, as discussed on page 65. (Any medical costs not used for the SEHI adjustment will automatically flow to Schedule A.)
- If it is worth entering medical expenses, go to the **Schedule A - Medical Deductions** page [Deductions > Itemized Deductions > Medical and Dental Expenses]
  - For each category on this page, expenses can be entered as a total *or* in detail
    - It is strongly recommended the **taxpayer** be responsible for calculating the total for each category (doctors/dentists, prescriptions, and so on), and that only the totals be entered into TaxSlayer.
    - 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 each category where there are expenses. Then enter payments to individual service providers, or enter payment groupings done by the taxpayer.
  - [Pub 502, Medical and Dental Expenses](#), is the definitive guidance for this type of deductions.
- **Medical and dental insurance:**
  - If the return includes a Schedule C, **do not** enter any premium amounts in Schedule A. Some or all of those costs might be used for the Self-Employed Health Insurance adjustment on Line 29 of Schedule 1, and should be entered on Schedule C, as discussed on page 65. (Any premiums paid which are not used for the SEHI adjustment will automatically flow to Schedule A.)

## Taxable Income and Tax Calculation

- o Medicare premiums entered in the **Social Security SSA-1099** page, or in Schedule C, should not be entered again; although TaxSlayer does not display those amounts on any Schedule A-related page, it *will* add them to what is entered directly on the **Schedule A - Medical Deductions** page
- o Medicare premiums don't always show on a Form SSA-1099:
  - 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, do count as health insurance premiums. TaxSlayer will not automatically include those on Schedule A.
  - **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 amount paid per the 1095-A, **plus** any APTC that must be repaid, **minus** any additional PTC allowed.
    - **Look at Schedule 2, Line 46, Excess APTC Repayment, and Schedule 5, Line 70, 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 normally done *after* the Federal Section, *if the taxpayer has a Form 1095-A*, do the follow as you work on itemized deductions:
    - 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 9) saying that that the amount of health insurance premiums paid needs to be adjusted based on the amount on Line 46 of Schedule 2 or Line 70 of Schedule 5.
  - After the Health Insurance section is completed:
    - Look at those two lines, and return to Schedule A to make the adjustment, if any [almost always there will be]
    - Update the note to state the amount that was adjusted based on Line 46 of Schedule 2 or Line 70 of Schedule 5.
  - Amounts paid by taxpayers for a Marketplace policy **can** be used for the Self-Employment Health Insurance (SEHI) adjustment, on Line 29 of Schedule 1, but because of complexities in calculations, doing so is **out-of-scope** for the Tax-Aide program. The taxpayer can stay in scope by using those payments on Schedule A, but if that significantly impacts taxes owed by the taxpayer, he/she should be referred to a paid preparer.
- 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 2018 rate is \$0.18 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
  - o All other transportation costs (bus, parking, tolls, taxicab fare, airplane tickets, and so on) are entered as "Other medical expenses"
- Other medical expenses
  - o Other medical expenses must be entered by clicking on the blue icon to the right of the dollar box
  - o 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. For a taxpayer to take this deduction, the retirement community must provide written information (typically in the form of a letter to all residents), stating either a percentage or a flat dollar amount of fees that can be considered to be for medical facilities and services.
- o Personal care services done in the taxpayer's home *are* deductible as medical expenses if their primary purpose is to provide a chronically ill person with assistance with his or her disabilities.
  - Such services must be specified in a plan of care prescribed by a licensed health care practitioner, and meet other requirements as described in the "Qualified Long-Term Care Services" section of [Pub 502](#).
    - **Note:** If the taxpayer pays, *directly*, one or more individuals who provide the care services, rather than paying through an agency, and the total amount paid in a tax year to any single employee is over \$2,000, then Schedule H, Household Employment Taxes, is required, in which case the return is *out-of-scope*.
- o Lodging costs incurred while traveling out of town are deductible if the lodging is primarily for, and essential to, medical care, the medical care is provided by a doctor in a licensed hospital or in a medical care facility, and there's no significant element of personal pleasure, recreation, or vacation in the travel away from home.
  - This deduction is limited to a maximum of \$50 per night for each person who receives the lodging. For example, if a parent and a sick child receiving out-patient care receive lodging, up to \$100 per night can be deducted.
- Qualified long-term care premiums
  - o The amount of long-term care (LTC) premiums that are deductible depends on age. For 2018, the total for the year that is deductible is \$420 if 40 or younger on December 31 of the tax year; \$780 if 41 to 50; \$1,560 if 51 to 60; \$4,160 if 61 to 70; and \$5,200 if 71 or older
  - o The premiums are deductible only if they are paid for a "qualified" plan. 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 have been approved by the insurance commissioner of the state in which they were sold.
  - o In TaxSlayer, click the "Add Premiums" button to enter long-term care premiums.
    - **Exception:** Do not enter LTC premiums in Schedule A if the return includes a Schedule C. Some or all of those costs might be used for the Self-Employed Health Insurance adjustment on Line 29 of Schedule 1, and should be entered on Schedule C, as discussed on page [65](#). (Any medical costs not used for the SEHI adjustment will automatically flow to Schedule A.)
- On Schedule A of Form 1040, TaxSlayer will calculate and subtract the nondeductible amount of medical expenses (7.5% of AGI for 2018)
  - o **Note for CA state returns:** For tax years 2015 and 2016, the federal percentage of 10% for taxpayers under age 65 was *not* matched by CA; the nondeductible portion of medical expenses on the CA return was 7.5% of AGI for all ages. TaxSlayer makes the adjustment automatically for 2016; for 2015, a manual adjustment is needed.
- **Note for CA state returns:** Medical expenses reimbursed by an HSA are not deductible for federal but are deductible for CA
  - o These expenses are entered on Form 8889 (see the section Schedule 1, Line 25 - Health Savings Account, on page [64](#))
    - A manual adjustment is required for CA Schedule CA - see Health Savings Accounts in CA, page [105](#), for further information

### **Schedule A - State and Local Income and Sales Taxes Paid (Line 5a)**

- **CA process note:** State and local income taxes paid, and sales taxes paid, are allowable deductions only for the federal return, not for CA. If the taxpayer is taking the standard deduction for the federal return, **there is no need to enter** any information about these taxes into Schedule A in TaxSlayer.

## Taxable Income and Tax Calculation

- For Schedule A, TaxSlayer will use the LARGER of (a) state and local income taxes paid or (b) general sales taxes paid
  - The general sales tax figure always requires the preparer to enter some information into TaxSlayer.
  - For the state and local taxes, *most of the time* no additional information needs to be entered.
    - **CA legal note:** California does not allow localities to assess a local income tax on individual taxpayers.
- **Go to the Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid]
  - **Note:** This 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)
  - **Note:** If you have previously entered information on this page, or entered information about property taxes paid as part of entering information about mortgage interest, then when you click “Taxes You Paid”, you’ll go to a different page – it has the same title, but shows only one line of information, with dollar figures for “Real Estate Taxes” and “Personal Property Taxes”. Click the pencil icon (“Edit”) to get to the **Schedule A - Taxes You Paid** page where you can enter information.
- State and local income taxes
  - 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 process note:** CASDI entered in box 14 of TaxSlayer **W-2** page is also automatically included by TaxSlayer in the total for state taxes paid
  - In the first box on **Taxes Paid** page, enter the total of the following, if any:
    - Any state taxes paid when filing the 2017 state tax return [confirm with the taxpayer that any amount due on the 2017 state tax return *was actually paid*]
    - Any state taxes paid when filing an extension in 2018
    - Any state taxes paid as part of a collection or installment payment agreement during 2018, regardless of what year(s) the payments were for
  - In the second box on the **Schedule A - Taxes You Paid** page, enter the final payment to CA for estimated state taxes for the 2017 tax year, *if* that final payment was made after December 31, 2017.
- General sales tax
  - To enter the general sales tax amount into TaxSlayer, start at the **Schedule A - Taxes You Paid** page, and clicking the “Add Sales Tax Worksheet” button; that takes you to the **Sales Taxes Deduction** page
    - Now you have a choice – use the TaxSlayer worksheet for your calculations (easier), or use the IRS sales tax deduction calculator
      - ◻ If you use the TaxSlayer worksheet and enter percentages [*not* recommended], be careful not to switch the local and state percentages. (The state percentage for California for 2018 was 7.25%.)
      - ◻ If the taxpayer lived in multiple places in the year, *use the IRS calculator.*
  - Large purchases: Both calculation options require that you determine if the taxpayer purchased a motor vehicle, aircraft, mobile home, or building materials (for a new home or substantial addition or renovation) during the year, and, if so, the **sales tax paid**, which will be entered at the appropriate point in whichever process you select.
    - **Note:** For building materials, the sales tax must be separately listed on an invoice, and the invoice paid by the taxpayer, not by a contractor
  - Untaxed income: Both calculation options involve the total income that was *not* included in the taxpayer’s AGI, but was available for spending
    - The most likely situations of non-taxed income are tax-exempt interest (Line 2b), non-taxable IRA distributions (where Line 4a does not equal 4b - but rollovers and transfers must be excluded), and untaxed Social Security benefits (Line 5a minus Line 5b). Less common are types of income that are completely untaxed but typically go to lower-income taxpayers who don’t itemize: Medicaid Waivers, Workers’ Compensation, disability insurance, and payments from public assistance programs.
      - ◻ Keep in mind that the IRS calculator – and presumably the TaxSlayer calculator – uses income *ranges*, which begin at “less than \$20,000”, and go up from there in \$10,000 increments. You only have to get the *range* correct, not the exact amount that isn’t included in the AGI figure.
      - ◻ For a full list of non-taxed income, see the General Sales Tax Deduction Income Worksheet at [cotaxaide.org/tools](http://cotaxaide.org/tools)
    - **Warning:** TaxSlayer displays its calculation of total income (“MAGI”) on the “Schedule A - Taxes You Paid” page; sometimes this is not even close to being correct. If you’re using the TaxSlayer worksheet to calculate general sales tax, **review this figure to seem if it is at least approximately**

**correct.** If not, enter an adjustment in the “Amount to Adjust the Calculated MAGI by” box (see next section), or use the IRS sales tax calculator instead of the TaxSlayer worksheet.

o TaxSlayer worksheet calculation

- At the **Sales Taxes Deduction** page, enter the ZIP code of the taxpayer.
- If the taxpayer lived in **only one place** during 2018, or two or more places in California with **same** sales tax rates, enter “365” for the days. [For a leap year, enter “366”.] Otherwise, enter the actual number of days that the taxpayer lived at the first location (starting January 1, 2018) during the year.
- If the taxpayer purchased a motor vehicle, aircraft, mobile home, or building materials, as discussed above, then enter the sales tax paid for such large purchases in the “General sales taxes paid” box; otherwise, *leave this blank*.
- Click “Continue”.
  - If the number of days listed doesn’t total 365, because the taxpayer lived in more than one location during the year, and not all locations have been entered, then click “Add a Sales Tax Deduction” to add another location.
  - If/when the number of days totals 365, click “Continue” again
- Back on the **Schedule A - Taxes You Paid** page, go to the “Modified Adjusted Gross Income” section at the bottom of the page, and make adjustments as needed.
  - Compare the MAGI figure to the AGI figure at the bottom of page 1 of Form 1040, on the Summary/Print page, for reasonableness.
  - TaxSlayer *does* know that that amount on Line 2a (tax-exempt interest), plus the difference between Line 5a and 5b (total versus taxable Social Security), plus the amount because of Medicaid Waivers, should be added to the AGI to determine the MAGI figure.
  - In the “Amount to Adjust the Calculated MAGI by” box, enter, as a positive number, any untaxed income that TaxSlayer does *not* know about, because it isn’t reported at all on Form 1040 – for example, Supplemental Security Income (SSI) payments and veterans’ benefits.

o IRS sales tax deduction calculator

- At the **Sales Taxes Deduction** page in TaxSlayer, go to to bottom, and click “Click here”, which will open a new tab on your browser. Click the “Sales Tax Calculator” button; on the next page, scroll down and click (bottom right) the “Continue” button. Select a tax year; click continue
- When you select the income range, it should include **non-taxable income**, as discussed above.
- When the calculator asks about the sales tax paid on “specified items”, enter the **sales tax paid** on large purchases, as mentioned above, if any
- Answer “Yes” to the question “Did you move to a new residence in 2018 (after January 1st)?”
- On the “Results” page of the IRS calculator, note the “Total General Sales Tax Deduction” *dollar amount* (it would be a good idea to print this page, for the taxpayer’s records)
- If the first round of calculations wasn’t for a full year, then click “Start Over” to calculate the general sales tax for the second (and any subsequent) location where the taxpayer lived during 2018, and repeat the steps above, calculating the total of the two (or more) localities
- Close the browser tab for the IRS calculator
- On the **Sales Taxes Deduction** page, scroll to the top of the page, then click the “Override” button, enter the amount from the IRS calculator, and click “Continue”

- **Note for CA state returns:** Neither sales taxes paid nor state income taxes paid are allowable deductions on CA Schedule A; TaxSlayer automatically posts the adjustment to line 5 of Part II of CA Schedule CA.

### **Schedule A - Real Estate Taxes (Line 5b)**

- In general:
  - o Effective as of the 2018 tax year, deductible real estate taxes are limited to properties in the United States, and cannot be for rental or business properties, because a tax return with such property is **out-of-scope**
  - o If a property has multiple owners, other than a married couple, property tax deductions can be taken only by the co-owner *who made the payments*, regardless of ownership percentages. If a non-owner makes payments on behalf of an owner, those payments are a gift unless otherwise specified by the donor, and only that owner can claim those payments on Schedule A.
  - o Most real estate tax information is now available online without registering or paying. If you don’t know the website where you can find a county’s information, or if you are looking for real estate taxes paid in other counties, a good website is [publicrecords.onlinesearches.com/](http://publicrecords.onlinesearches.com/). (Under “Property Records”, select “Assessor and Property Tax Records”.)

## Taxable Income and Tax Calculation

- **CA process note:** A good alternative for California counties is [boe.ca.gov/proptaxes/countycontacts.htm](http://boe.ca.gov/proptaxes/countycontacts.htm)
- To enter real estate taxes, go to the **Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid]; enter the total for all real estate taxes actually paid during the tax year, not what was assessed
- **CA process note:** California real estate taxes are generally paid in two installments, due in November and February, but not delinquent until December and April, respectively. The amount entered on line 5b should be the amount actually paid in the tax year for the taxes (some taxpayers do pay both installments at once, in November or December).
- **CA legal note:** CA has received IRS guidance that real estate taxes not based on the value of the property are still deductible – this means that the whole amount paid for each installment will generally be put onto line 5b
  - Three types of charges are **not** deductible as real estate taxes:
    - 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.)
    - Energy-saving projects paid through the property tax bill; these are often financed by a property assessed clean energy (PACE) program. (The interest portion of such payments *is* deductible as home mortgage interest *if* the loan that financed the project is secured by a lien against the taxpayer’s home.)
  - Because property tax bills can include items that are not real estate taxes, it’s important to actually review the bills (generally available online – see above, if the taxpayer did not bring these), rather than simply entering the dollar amounts paid.
- If the taxpayer bought and/or sold their home during the tax year, the real estate closing statement(s) **must** be reviewed, because it is almost certain that the taxpayer either paid real estate taxes at closing or was given credit for real estate taxes already paid.

### **Schedule A - Personal Property Taxes (Line 5c)**

- **Go to the Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid]
- The CA Vehicle License Fee (VLF) qualifies as a personal property tax
- The total amount paid to the CA 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 is often 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/vlfForm.do](http://dmv.ca.gov/FeeCalculatorWeb/vlfForm.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 5c of Schedule A.
- If the taxpayer has a manufactured home (mobile home) installed prior to July 1, 1980, they may be paying an in-lieu tax through their annual registration fee with California Housing and Community Development, rather than paying property taxes. The in-lieu tax is deductible as a personal property tax.

### **Schedule A – Total State and Local Taxes (Line 5e)**

- As of tax year 2018, the total federal itemized deduction for state and local taxes (SALT) is limited to \$10,000. TaxSlayer automatically makes this adjustment on line 5e of Schedule A.
- **Note for CA state returns:** CA does not conform to this limitation (and it also does not include state income tax or state sales tax in allowable itemized deductions), so enter all real estate taxes and personal property taxes, regardless of amount, if expecting to itemize on the CA return. These amounts will flow properly to Part II of CA Schedule CA.

### **Schedule A - Other Taxes (Line 6)**

- **Note:** Vehicle license should be entered in the “Personal Property” box on the TaxSlayer page, as discussed in the prior section; that will place them on line 5c 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 [Deductions > Itemized Deductions > Taxes You Paid] and enter information in the “Other Taxes” section



- o Homeowners' association fees are *not* taxes and are *not* deductible on Schedule A
- Line 6 can include foreign income taxes, but only when the taxpayer is not claiming a foreign tax credit on Schedule 3, Line 48, Foreign Tax Credit, as discussed on page [84](#)
- o Claiming a foreign tax credit always results in less taxes owed than does itemizing, **but claiming the credit is out-of-scope if the taxpayer paid more than \$300 of foreign tax (\$600 for MFJ returns)**, as discussed on page [84](#).
- o **Warning:** If itemization is chosen, *all foreign tax amounts entered anywhere other than Schedule A need to be zeroed out - there is no other way to keep these amounts off Line 48 of Schedule 3.* (Create a note, per page [9](#), about what is being done.)
  - To zero out foreign taxes entered elsewhere in TaxSlayer, review all the entries for 1099-INTs and 1099-DIVs, and look at the page **Form [1116](#) - Foreign Tax Credit**, where the total for all K-1 forms is entered.
- o **Note for CA state returns:** No CA deduction is permitted for foreign income taxes. If foreign income taxes are deducted on Schedule A, line 6, then, in the State Section, make an adjustment – negative – to the CA itemized deduction amount – see the section Not Allowed by CA as Itemized Deduction on page [105](#).

### **Schedule A - Interest and Points Reported on Form 1098 (Line 8a)**

- Chapter 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 8b and 8c, respectively, of Schedule A, as discussed below
  - o Motor homes and boats that provide basic living arrangements generally qualify as main or second homes
- Interest and points paid on a **second home** are treated identically to those for a main home, *except* that points paid on loans secured by a second home must be deducted over the life of the loan.
- What can be included on Line 8a:
  - o Interest paid on a mortgage(s), and any points paid during the tax year in conjunction with the mortgage(s) up to [\\$750,000](#) (\$375,000 MFS) is deductible when the loan is used to buy, build, or improve a main home, **if the loan was signed after December 15, 2017**. If signed prior to that date, the eligible amount remains at \$1 million (\$500,000 MFS)
    - *If the taxpayer has mortgage interest, the counselor must determine (a) when the mortgage loan was made, (b) whether the loan is a first or second mortgage, or a home equity loan – if a home equity loan, there are additional requirements for tax deductibility; (c) if a first or second mortgage, whether it was a refinance of an earlier loan, and if so, whether it was a larger amount than the original loan.*
    - **Note for CA state returns:** CA does not conform to the reduction in amounts; interest paid for a total of up to \$1 million in loans (\$500,000 MFS) is still deductible on the CA return, *regardless of date signed*, to the extent that these loans were used to buy, build, or improve a home.
      - The difference (interest on loan amounts over \$750,000 but not exceeding \$1 million, if signed after December 15, 2017) must be entered manually on CA Schedule CA, as an additional deduction, as discussed in the section Itemized Deductions Treated Differently by CA on page [PAGEREF\\_Ref405983982 h 104](#), and in the section immediately following that section.
  - o Interest paid on a new loan to refinance an old loan that was used to buy, build, or improve a main home is deductible, but points paid to refinance the mortgage must be spread over the life of the new mortgage (enter points paid *separately* in TaxSlayer)
    - However, if the new loan was *larger* than the original loan, then the counselor must determine if the additional amount was used to improve the home [in which case the related interest *is* deductible], or whether the additional amount of the loan was used for something else [to pay off credit card debt, for a vacation, or just put into a savings account, for example], in which case the related interest is *not* deductible.
  - o Interest on a home equity loan, if used to purchase or improve a home, is treated similarly to a mortgage (the \$750,000 or \$375,000 limit is for *combined* debt). If some or all of a home equity debt is used for something *other than* purchasing, building, or improving a house, interest is deductible on that portion only for loan amounts up to \$100,000 (\$50,000 MFS).
    - **Interest on home equity loans is, as of tax year 2018, no longer tax deductible unless the loan was to buy, build, or improve the taxpayer's main home.** This is true *regardless* of when the home equity loan was made.
  - o Interest on loan proceeds used to pay special assessments on condominium owners *is* deductible *if* the special assessment was for capital improvements.

## Taxable Income and Tax Calculation

- o Interest is only deductible if a loan is secured by the home that it was used to buy, build, or improve.
  - For example, interest for a second mortgage used to purchase a vacation home is *not* deductible.
- o Repayment of principal is calculated as paying down the principal of the loan in this order: (1) non-acquisition portion; (2) grandfathered portion – amount over \$750,000; and (3) buy/build/improve [“acquisition”] portion
- o Late payment charges are deductible as interest in situations where the interest is deductible
- Go to the **Mortgage Interest Reported on 1098** page [Deductions > Itemized Deductions > Mortgage Interest and Expenses > Mortgage Interest Reported on Form 1098]
  - o For each 1098, report the information separately (click on an “Add” button)
    - 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 5a (see above); that will cause double-counting.
- What should **not** be entered on the **Mortgage Interest Reported on 1098** page:
  - o Home mortgage interest paid to an individual (see the section immediately below)
  - o **Mortgage insurance premiums (box 5 of Form 1098)** – see Schedule A - Mortgage Insurance Premium, on page [77](#)
  - o **Reverse mortgage costs during the life of the reverse mortgage.** (A taxpayer with 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 a reverse 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](#)
- If a property has multiple owners, other than a married couple, mortgage interest deductions can be taken only by the co-owner *who made the mortgage payments*, regardless of ownership percentages. If a non-owner makes payments on behalf of an owner, those payments are a gift unless otherwise specified by the donor, and only that owner can claim those payments on Schedule A.
  - o If the taxpayer was liable for and paid interest on a mortgage, but a co-owner (non-spouse) received a Form 1098 that includes some of the interest that the taxpayer made, the taxpayer can still claim all the interest that he/she paid. But to do so, a statement must be attached to the return, stating how much of the interest on that Form 1098 was paid by each owner, and giving the name and address of the person who received the form.
    - The easiest way to attach a statement is to use one or more Preparer Notes, of up to 1000 characters each, that are sent to the IRS with the e-filed tax return. [New, June 2018]. To create a Preparer note, go to the **Preparer Note** page [Miscellaneous Forms > Explanations > ...]

### ***Schedule A - Mortgage Interest Not Reported On Form 1098 (Line 8b)***

- Home mortgage interest paid to **an individual** are reported separately from interest paid on a Form 1098
  - o 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).
  - o 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 [Deductions > Itemized Deductions > Mortgage Interest and Expenses > Mortgage Interest Not Reported on Form 1098]

### ***Schedule A - Points Not Reported On Form 1098 (Refinance) (Line 8c)***

- 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.
  - o 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.

- o **Note:** If some of the interest on the loan is not deductible, then a proportional amount of the points paid is also not deductible
- 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 this line
- Go to the **Points Not Reported on 1098** page [Deductions > Itemized Deductions > Mortgage Interest and Expenses > ...]

### *Schedule A - Mortgage Insurance Premiums (Line 8d)*

**Note:** This deduction **expired** on December 31, 2017.

- **Note for CA state returns:** This deduction is not allowed on the CA return; accordingly, it should **not be entered in TaxSlayer**.

### *Schedule A - Investment Interest (Line 9) - out-of-scope*

#### *Schedule A - Gifts by Cash or Check (Line 11)*

- Donations must be to a qualified charity
  - o If there is any question about eligibility, check the IRS database: [irs.gov/charities-non-profits/tax-exempt-organization-search](https://irs.gov/charities-non-profits/tax-exempt-organization-search)
  - o **CA process note:** Donations to the California College Access Tax Credit Fund may need to be reduced by 50 percent because of the state tax credit that such donations generate. For more information, see the section College Access Tax Credit Code 235 CA Form 540, Page 2, lines 43-45, on page **106**
- “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 this line
  - o 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 **not** deductible as charitable donations.
  - o **CA legal note:** In calendar year 2017 or 2018, if a taxpayer donates leave (vacation, sick, or personal) through an employer, with the employer then making cash payments to a non-profit organization for relief of victims of the 2017 California Wildfires, those cash payments are **neither** income to the employee **nor** deductible by the employee as charitable contributions on either the federal or CA return.
- The deductible contribution is the amount given less the value of any property or service received; for example, the donation may result in the donor receiving a monthly magazine.
- 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 [Deductions > Itemized Deductions > Gifts to Charity > Cash Gifts to Charities]
  - o The detailed information which can be entered on this page *is for the recordkeeping of the taxpayer; it is not required by, nor reported to, the IRS.*
  - o One alternative to recording individual donations is to enter a total for each organization – Red Cross, Boy Scouts, United Way, etc.
    - If this is done, enter the Date of Donation as 1-1-2018
  - o Another alternative, if the taxpayer has well-organized records and has calculated the total amount for charitable contributions by cash or check, is to click the “Override” button and enter the 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.

## Taxable Income and Tax Calculation

- 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 2017 tax return was affected by the contributions limitation, and the taxpayer thus had a contribution carryover into 2018, the 2018 return is *out-of-scope*

### Schedule A - Contributions – Other than by Cash or Check (Line 12)

- 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](#) 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.org/Home/DonationValueGuide](http://satruck.org/Home/DonationValueGuide)
  - o More information is in [Pub 561, Determining the Value of Donated Property](#)
- Donations of vehicles, boats, and similar (Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes) which have a value of more than \$500 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*
  - o 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:
  - o If the **total** of all such donations is **\$500 or less**, use the **Schedule A Gifts to Charity Information** page [Deductions > 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 2018 rate for charitable mileage is 14 cents per mile.]
  - o If the **total** of all non-cash contributions **exceeds \$500**, use the **Form 8283, Non-Cash Donated Items** page [Deductions > Itemized Deductions > Gifts to Charity > Non-Cash Donations (more than \$500)]; note that the total cannot exceed **\$5,000** or the return is *out-of-scope*
    - Each donation is entered separately; **ten** fields of information are required.
      - The IRS does not require the cost or other basis of property, the date acquired by the donor, or how the property was acquired, **if** the fair market value of property on the day it was donated was \$500 or less. Unfortunately, TaxSlayer *does*.
    - As noted above, for any single 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* unless signed by a representative of the charity.
    - For the method used to determine the fair market value, “thrift shop value” usually applies

### Schedule A - Casualty and Theft Losses – out-of-scope (Line 15)

- As of the beginning of tax year 2018, casualty and theft losses which can be claimed on Schedule A are limited to those from a federally-declared disaster. Taxpayers who meet that criteria, and have potentially substantial casualty or theft loss, should use a paid preparer, because determination of actual losses is particular complex, and is *out-of-scope*.
- The Tax-Aide program can assist taxpayers by (at minimum) mentioning or (at maximum) printing the following IRS publications:
  - o [Pub 4512, Determining If You Have A Tax Deductible Casualty Loss](#), a two-page overview
  - o [Pub 547, Casualties, Disasters and Thefts](#)
  - o [Pub 584, Casualty, Disaster, and Theft Loss Workbook](#)

- o [Pub 2194, Disaster Losses Kit for Individuals](#)

### **Schedule A – Miscellaneous Deductions (Line 16)**

- In TaxSlayer, deductible expenses that go on line 16 of Schedule A are entered on the **Schedule A - Miscellaneous Deductions** page [Deductions > Itemized Deductions > Miscellaneous Deductions].
- The following are *in-scope* expenses that can go on line 16:
  - o Gambling losses, to the extent of gambling winnings – see Gambling Winnings (Form W-2G on page **60**)
  - o Impairment-related work expenses (for a disabled person)
  - o Claim repayments of more than \$3,000
    - This is for situations where the taxpayer had to repay *more than* \$3,000 that they had included in income in an earlier year – for example, unemployment benefits
      - **Note for CA state returns:** If \$3,000 or less, the repayment is subject to the 2%-of-AGI reduction, and is potentially usable if itemizing on the CA return, though not on the federal return – see the next section.
  - o Unrecovered pension investments (includes annuities)
    - If a taxpayer died during the tax year, and had a pension without survivor benefits, any unrecovered employee pension contributions may be reported on line 16 of Schedule A on the final tax return for that taxpayer. See [Pub 575, Pension and Annuity Income](#), for details.
- The following miscellaneous deductions are *out-of-scope*
  - o Amortizable premiums on taxable bonds
  - o Federal estate tax

### **Schedule A - Unreimbursed Employee Expenses and Miscellaneous Deductions Subject to 2%-of-AGI Reduction (No line on Schedule A)**

**Beginning with tax year 2018, expenses that were subject to the 2%-of-AGI reduction are no longer deductible on Schedule A of the federal tax return. *They continue to be deductible if itemizing on the CA return, and they still are entered in the Federal Section of the TaxSlayer***

- **Note for CA state returns:** California conforms to federal Schedule A deductions *as of 2015*, so these expenses are allowable as a CA itemized deduction; these are reported on Part III of CA Schedule CA.
  - o TaxSlayer handles such “no longer valid for federal, but possibly valid for states” expenses by continuing to have them **entered on federal itemization pages**.
    - There are three pages used for entering such information. Most of the rest of this section is organized around those three pages.
- Counselors need to understand what the 2%-of-AGI reduction means.
  - o For example, if a taxpayer has a **federal** AGI of \$50,000, the 2% reduction would affect the first \$1,000 of such deductions – that initial \$1,000 of deductions *is not allowable* on the CA return
    - To continue the example, for the taxpayer with an AGI of \$50,000, assume that the taxpayer has investment expenses, on a broker’s statement, of \$1,250, and no other expenses subject to the 2%-of-AGI reduction. Then the adjustment amount on CA Schedule CA, as discussed on page **104**, would be \$250.
  - o If the total of expenses listed below, in this section, is *less* than the 2% threshold for a taxpayer, **there is no point in entering the expenses into TaxSlayer**.
- Unreimbursed employee expenses other than job-related travel
  - o Non-travel expenses, including union or professional dues, job search expenses, uniforms, tools, and job supplies, *if not reimbursed by the employer*, are entered on the **Schedule A Unreimbursed Employee Expenses Information** page [Deductions > Itemized Deductions > Unreimbursed Employee Business Expense]
    - Job search expenses must be for the taxpayer’s current line of work, can include costs for preparing and mailing a résumé, can include transportation, meals, and lodging expenses if a trip is mainly to look for a new job, and can include job placement and employment agency fees.
  - o Certain education-related expenses *can* be claimed here. 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

## Taxable Income and Tax Calculation

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.

- **Job-related travel expenses** are entered on the **Form 2106 Information** page [Deductions > Itemized Deductions > Job-Related Travel Expenses]
  - If a MFJ return, select the person for whom the form applies. (You can create a second set of expenses, subsequently, if you want, for the other spouse.)
  - 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
  - Note that meals expenses are to be entered *in full*; TaxSlayer will calculate the allowed amount, using the stated percent, and put that amount on Schedule A
    - As of tax year 2018, entertainment expenses are not deductible on the federal Schedule C.
- **Other deductions, not related to employment**, which are subject to the 2%-of-AGI reduction are entered on the **Schedule A – Miscellaneous Deductions** page [Deductions > Itemized Deductions > Miscellaneous Deductions]
  - Tax return preparation fees
  - Safe deposit box rental (if used to store investment-related documents)
  - Investment expenses (*tip*: review all brokerage statements of the taxpayer)
  - 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

### **LINE 9 – QUALIFIED BUSINESS INCOME DEDUCTION**

The QBI deduction is new, beginning in tax year 2018. It’s generally 20 percent of the amount on Schedule 1, Line 12, Business Income, assuming that is not a negative number. [If Line 12 is a negative number, which means a *loss* for net business income, the return is **out-of-scope**.]

- If taxable income, Line 10, plus the QBI deduction, Line 11, exceeds \$157,500 (\$315,000 if MFJ), the return is **out-of-scope**
- The QBI deduction can be less than 20 percent of business income: if taxable income in excess of any net capital gain and before the QBI deduction is less than business income, then the 20 percent calculation is done on the smaller number.
- The QBI deduction can be more than 20 percent of business income if there are section 199A (REIT) dividends reported in box 5 of Form 1099-DIV, because the deduction also includes 20 percent of those dividends.
- TaxSlayer calculates the QBI deduction automatically.

### **LINE 11 - TAX**

- If Line 10, Taxable Income, is positive, but Line 11 is blank or zero, *this is not an error*. For taxpayers in the 10 and 12 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 11, then the Tax amount is in fact *zero*

### **LINE 12A - CHILD TAX CREDIT AND CREDIT FOR OTHER DEPENDENTS**

- Starting with tax year 2018, Line 12A consists of two things – a child tax credit of up to \$2,000 per qualifying child [prior to tax year 2018, it was \$1,000 per child], and a credit of up to \$500 for other dependents.
  - “Up to” refers to the fact that the \$500 credit for other dependents is non-refundable, so it is available only to the extent that it is needed to offset the Tax amount on Line 11.
- On the front of Form 1040, in the Dependents section, to the far right of each dependent’s name, are checkboxes for these two credits, showing who has qualified. If in fact someone is listed who does *not* qualify:
  - In the Basic Information section, go to the page for that person. Then check the box labeled “Check if this qualifying child is NOT YOUR DEPENDENT”. This will remove the person from the Dependents section, as well as also prevents the taxpayer from getting the child tax credit or the credit for other dependents for that person.

### ***Child Tax Credit***

- The child tax credit is for qualifying children under the age of 17 as of the end of the tax year

- o It is in addition to the credit for child and dependent care expenses, and the earned income credit
- o A qualifying child must have a Social Security number as of the filing date, or as of April 15, 2019, whichever is earlier [this is a new requirement, starting as of tax year 2018]
- o A custodial parent can allow the non-custodial parent to claim a dependent for the purposes of the child tax credit, education credits, and the medical expense deduction
  - This requires a written declaration – Form 8332 or similar documentation
- If the taxpayer is eligible for CTC, based on filing status and information entered for dependents, TaxSlayer automatically calculates the amount.
  - o The taxpayer and/or spouse do *not* need SSNs, but dependents do.
    - **Warning:** a return *cannot be amended to retroactively claim EIC after a dependent gets a SSN. If the taxpayer expects to get that SSN by October 15, he/she must file an extension rather than file the tax return in order to preserve the right to EIC for that dependent.*
- The child tax credit is both a non-refundable *and* a refundable credit.
  - o The CTC amount that goes on Line 12a is calculated as Line 11, Tax; minus Line 12b, other refundable credits, if any; minus the credits for other dependents, if any. If the calculated amount for CTC, on Line 12a, hasn't fully used the amount of the child tax credit, then the some or all of the remaining amount, up \$1,400 per child, goes to Line 17b - Additional Child Tax Credit (see page 97), as a refundable credit.
- If the CTC (or the companion credit on Line 17b, the ACTC) is received on the 2018 tax return, 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-12 and G-13 of Pub 4012](#) and in [Pub 972, Child Tax Credit](#)

### ***Credit for Other Dependents***

- This credit ***cannot be claimed*** if any of the following are true:
  - o The dependent had gross income of \$4,150 or more
  - o The dependent provided more than half of his/her own support
  - o If the dependent has an ITIN, the dependent did not live in the United States during the entire year, except for temporary absences
- If TaxSlayer *does* give this \$500 non-refundable credit for someone listed in the Dependents section of the Form 1040, as shown on the **Calculation Summary** page (there will be a box checked to the far right of the person's name), and *should not*, then go to the **Dependent/Qualifying Child Information** page for that person, and check the box "Check if this qualifying child is NOT YOUR DEPENDENT"
- Detailed information on this credit is on [pages G-14 through G-16 of Pub 4012](#)

### **SCHEDULE 2, LINE 45 - ALTERNATIVE MINIMUM TAX (*out-of-scope*)**

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

### **SCHEDULE 2, LINE 46 - EXCESS ADVANCE PREMIUM TAX CREDIT REPAYMENT**

- The amount on Line 46 of Schedule 2, if any, 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 TaxSlayer's Health Insurance section, and most of the other pages in that section, are covered below, in the section Schedule 4, Line 61 - Health Care: Individual Responsibility, on page 93.
- The remaining questions in TaxSlayer's Health Insurance section are related to taxpayers who purchased health coverage on an exchange (see Intake Booklet, top of page 3), and who probably received an advance premium tax credit (APTC).
  - o 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.
  - o 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 H-23 through H-29 of Pub 4012](#). More information is available in the “ACA Flowchart TY 2018” document, posted to the Portal on December 31, 2018.

### **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 Schedule 2, and the related entry, Line 70 on Schedule 5, will be **zero** (and you’re done with those two lines); if the answer is “Yes”, then continue with this section, regarding Line 46.
  - **CA process note:** The term “State Marketplace” or just “Marketplace”, “or “exchange”, should be taken to refer to Covered California (at [coveredca.com](#)) unless the taxpayer lived outside CA during the year
    - 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.
- On the **Verify Your Household Members** page, clicking “Add New Household Member” generally means that the return is **out-of-scope** because it would require answering questions related to Part IV, “Allocation of Policy Amounts”, of Form 8962; that part is **out-of-scope**.
  - All dependents should have been entered in the Basic Information > Dependents/Qualifying Person section.
  - 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 IV of Form 8962, which is **out-of-scope**.
    - One example might be a child whose parents divorced in 2018.
  - If the taxpayer got married during the year and *chooses* to use the alternative calculation for the year of marriage (Part V of Form 8962), then the return is **out-of-scope**.
- 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 purchased health insurance through a Marketplace such as Covered California, they should have gotten a Form 1095-A.*
  - If the answer is “no”, then further analysis is needed. Even if a taxpayer who purchased health insurance through a Marketplace *did not receive any APTC (subsidies)*, the taxpayer should have received a Form 1095-A, and the taxpayer *might* be entitled to a net premium tax credit (Line 70 of Schedule 5). If so, information related to that form should be entered into TaxSlayer, which means the taxpayer should contact the marketplace to get that form.
    - If you’re sure that (a) the taxpayer didn’t receive any subsidies from the Marketplace, and (b) the taxpayer’s return puts the taxpayer (and family, if any) above 400% of the federal poverty line (\$48,240 for a 2018 return for a single person; see [page H-30 of Pub 4012](#) for the full table), then there isn’t any point in asking the taxpayer to obtain a Form 1095-A; enter “No” in TaxSlayer; Line 46 on Schedule 2, and the related Line 70 on Schedule 5, will be **zero** (and you’re done with those two lines on Form 1040).
    - If in fact the taxpayer’s return puts him/her at or below 400% of the federal poverty line, then enter “No” but *also make a note (page 9) that the taxpayer needs to obtain Form 1095-A in order to complete the return.*
  - 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 Form 1095-A, or a corrected one, or the information which should be on the Form 1095-A. If the taxpayer 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 \(PTC\)](#); this form is one of ten for which - *new as of the 2017 tax year* – a PDF can be created from a page within the return. (This form is printable from the first page in the Health Insurance section – look for the small printer icon and “Print” to the left of the “Continue” button.)



- [Page H-26 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 H-23 of Pub 4012](#) discusses Form 1095-A in detail; [page H-27](#) 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 H-28 of Pub 4012 regarding what options the taxpayer has.
- If the taxpayer had Marketplace coverage during the year *and* was covered by Medicare or employer insurance during a month when the taxpayer was *also* receiving APTC, the taxpayer is not entitled to APTC for that month. For such a month, change the SL CSP shown in column B of the 1095-A to \$0.
- If the taxpayer had both Marketplace coverage *and* was covered by Medicaid during a month when the taxpayer was *also* receiving APTC, that does not affect the calculations for possible APTC repayment, nor what is entered into TaxSlayer.

### ***Dependents’ Modified AGI (if filing requirement)***

- This TaxSlayer page will be visible only if the taxpayer has dependents on the return. It requires information to be entered **only** for dependents 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 H-11 of Pub 4012](#) has information on when dependents are **required** to file a tax return

### ***Repayments of APTC***

- After completing the Health Insurance section, **look at Line 46 of Schedule 2** (via the Summary/Print option; go to page 2), or look at Form 8962 (printable from the first page of the Health Insurance section), 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 (\$48,240 for the 2018 return, for a single person; see [page H-30 of Pub 4012](#) for the full table), consider ways to reduce the taxpayer’s MAGI to below 400%:
  - The most common way to reduce MAGI is for the taxpayer to make a contribution to a traditional IRA by April 15, 2019. Other options are listed on [page H-29 of Pub 4012](#).
  - **Note:** For tax years 2017 and earlier, the taxpayer might be able to claim a tuition and fees deduction (Line 34), which reduces AGI, rather than an educational credit, which does not.
  - **Note:** MFS filers are *not eligible for APTC* unless a victim of domestic abuse or spousal abandonment, but there still may be an advantage in filing as MFS because of a repayment cap.
    - **CA policy:** Filing MFS in order to reduce APTC repayments, rather than filing MFJ, is *out-of-scope*.
- Normally, filing as HoH is more advantageous than filing as Single. However, if the taxpayer is required to repay a large amount of excess Advanced PTC, a filing status of Single may be advantageous, since the repayment is capped at \$750 for Single filers, but at \$1500 for HoH filers.
- If the taxpayer is repaying all or a significant amount of APTC, discuss with the taxpayer whether they have Marketplace coverage for 2019, and, if so, whether the Marketplace has a good estimate for the taxpayer’s income in 2019. (If not, they should *call*.) A good estimate is important for avoiding a large repayment when taxes are filed for tax year 2019.
- APTC repayment on Line 46 of Schedule 2 **is an allowable medical expense** on Schedule A, as are insurance premiums listed on Form 1095-A. The amount on Line 46 of Schedule 2 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**

- Line 48 through Line 54 on Schedule 3 are for **non-refundable credits**. Such credits can only be used to offset taxes due (Line 11a on the 1040). In contrast, refundable credits 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.
  - The child tax credit is a hybrid – if taxes are high enough, it may be used in full (up to \$2000 per child) on Line 12a of Form 1040 to reduce taxes owed. But if taxes are not that high, up to \$1400 per child may become a refundable credit, on Line 17b of Form 1040.
  - Similarly, the American opportunity credit goes to Line 50 of Schedule 3, as needed, and the refundable portion, if any, can flow to Line 17c of Form 1040.
- Non-refundable credits are found on the **Credits** page of TaxSlayer [Deductions > Credits Menu], as shown on [Pub 4012, page G-1](#)
- 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, and the amount of a state tax refund that is taxable
  - *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. They may provide a benefit in the **next** tax year.*

### **SCHEDULE 3, LINE 48 - FOREIGN TAX CREDIT**

- Foreign taxes paid by a taxpayer can either be claimed as a **credit**, entered (directly or indirectly) on Form 1116 and flowing to Line 48 of Schedule 3, or as a **deduction**, entered on line 8 of Schedule A (“Other taxes”). The taxpayer must make one choice or the other; the amount of foreign taxes paid *cannot be split between the credit and the deduction*.
- If the total foreign tax paid by taxpayer EXCEEDS \$300 (\$600 for a joint return), claiming the credit is **out-of-scope**, because it requires completion of a **full** Form 1116, which is **out-of-scope**. (Tax-Aide tax preparation uses on the *simplified* method of claiming the credit.) In such a situation, the taxpayer has two options:
  - Use a paid preparer, or tax software, to prepare the return, claiming the full credit on Line 48 of Schedule 3
  - Treat the entire amount of foreign taxes paid as an *itemized deduction*, to go onto line 6 of Schedule A, “Other taxes”, as described on page 74.
    - This option, of course, has no value to the taxpayer unless they are taking an itemized deduction rather than the standard deduction
    - *Note for CA state returns:* No CA deduction is permitted for foreign income taxes, so this option has no value for the CA return, despite its lower threshold for itemization.
- [Pub 514, Foreign Tax Credit for Individuals](#), is the definitive guidance on this topic.

### **SCHEDULE 3, LINE 49 - CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES**

- Refer to [Pub 4012, starting at page G-5](#)
  - **Note:** If the care provider worked in the taxpayer’s home and the total amount paid in 2018 was over \$2,100, Schedule H, Household Employment Taxes, may be required, in which case the return is **out-of-scope**
- This credit is available if the taxpayer paid someone else, including an organization, to care for a qualifying person. A qualifying person is:
  - (1) A dependent child who was under age 13, OR
  - (2) A dependent or spouse, regardless of age, who could not care for him/herself
 AND (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)
  - **Note:** In the year a child turns 13, these expenses are allowable only for the part of the year before their 13<sup>th</sup> birthday
  - **Note:** For MFJ returns, *both* the taxpayer and spouse must have earned income, unless disabled or a full-time student
- While this credit is for expenses for *care*, not for *education*, education *below* kindergarten is an acceptable expense, as is after-school care *if* the primary purpose is *not* educational. Also acceptable are day camp, but not overnight camp, adult day care, and in-home care.
  - Expenses for care do not include amounts that the taxpayer paid for food, lodging, clothing, education, and/or entertainment. However, the taxpayer can include small amounts paid for these items if they are incidental to and cannot be separated from the cost of caring for the qualifying person

- Go to the **F2441 - Child Care Credit - Page 1** page [Deductions > Credits Menu > Child Care Credit]
  - Click “ADD A CHILD CARE PROVIDER”
  - Enter all provider information
    - **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 9) 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”
  - 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. The *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.)
    - **Note:** When a taxpayer has two qualifying persons for this credit but only one qualifying person has child and dependent care expenses, the IRS still allows use of the \$6,000 limit that applies to two or more qualifying persons. In this situation, **add a second dependent who has no expenses**, but check the box “Qualifying Person had no expenses”
    - Click “Continue” after entering qualifying expenses for each dependent
  - 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 21
  - Click “Continue to Page 2”
- On **Child Care Credit - Page 2:**
  - **Note:** For most taxpayers no information will need to be entered on Page 2.
  - 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 Booklet, in box 6 (and box 9, 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. That school doesn’t have to be a college or university, but the enrollment must be for the number of hours or courses considered full-time attendance by the school.
  - 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.
  - Dependent care benefits received but not reported on a Form W-2, or forfeited benefits, are also entered on Page 2.
  - Even if no information was entered on page **Child Care Credit - Page 2**, click “Continue” to complete the Child Care Credit process
- Form 2441 is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a menu within the return.
- **Note for CA state returns:** 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.
  - The CA credit is not available to those whose federal AGI is over \$100,000.
  - 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 CA Form 3506*.
  - 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.

## Non-Refundable Credits

- **Note:** As of the date 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”

## **SCHEDULE 3, LINE 50 - EDUCATION CREDITS**

**Note:** The tuition and fees deduction **expired** on December 31, 2017, so it is excluded as an option in the discussion below.

- 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.
  - Expenses used for calculating either of the two education credits must be paid during the tax year
  - Expenses used for calculating either of the two education credits must be reduced by any scholarship amount designated for those expenses
  - If the taxpayer is filing MFS, none of these benefits are allowable
- The taxpayer can take **ONLY ONE** credit or adjustment **per student**: either the American Opportunity Credit (AOC), the Lifetime Learning credit.
  - **Note:** The American Opportunity Credit is often referred to as the American Opportunity Tax Credit (abbreviated AOTC). For consistency with NTTC training slides, the abbreviation “AOC” is used in this manual.
- If a taxpayer could be claimed as a dependent but was not, that taxpayer is still eligible for a credit. Situations where it makes financial sense to shift an education credit to a dependent are rare, and mostly involve high-income taxpayers, for example someone paying AMT (which is, of course, out of scope).
  - **CA process note:** In such a circumstance, the taxpayer would still want to claim the dependent on the CA return. This *is* possible, in TaxSlayer – for the process, see the end of the Dependents and Qualify Children section, on page 23.
- Normally the student will have received a Form 1098-T from the educational institution, which shows tuition and fees paid, and whether the student was at least a half-time student, as well as scholarships and grants.
  - 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 to claim an educational credit or a deduction on either Schedule A or Schedule C.
  - 1098-T information is entered on **Form 8863 - Educational Credit**, as described below. That TaxSlayer page is limited to *two Form 1098-Ts per student*.
    - If a student has three or more 1098-Ts that can be used for a specific educational credit, the return must be completed by hand and a paper return must be submitted.
  - If the 1098-T has a dollar amount in box 5, “Scholarships or grants”, see the section Scholarships, Fellowships and Grants – Form 1098-T on page 31 regarding whether this amount is taxable
    - **Note:** Quite often, when a scholarship is for a dependent, the best approach is to treat \$2000 of that (or the full scholarship, if less than \$2000) as taxable income for the dependent, and use the related \$2000 of expenses to maximize the educational credit for the taxpayer.

### ***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
  - It is a partially refundable credit
  - Eligible expenses include course materials as well as tuition and fees
  - 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 should be claimed, unless a Schedule C business-related expense is available and better
  - **Note:** Education expenses in excess of the amounts allowable for either credit may be deductible elsewhere
- A systematic process should be used to determine which education credit is best:
  - First complete ALL other aspects of the return.
  - If the taxpayer had health insurance through the Marketplace, make sure that ACA information is entered
  - 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:
  - Pages [J-2 and J-3 of Pub 4012](#) provide a comprehensive overview of the taxpayer’s choices; [page J-4](#) compares the American Opportunity Credit to the Lifetime Learning Credit.
  - The Education Calculator, an optimizer, is at [cotaxaide.org/tools](http://cotaxaide.org/tools)
- [Pub 9, Tax Benefits for Education](#), provides a comprehensive list of options.

### ***American Opportunity Credit (AOC)***

- This credit can be claimed if all of the following apply:
  - The student had not completed the first four years of postsecondary education (generally, the freshman through senior years of college), as determined by the eligible educational institution, by the beginning of the tax year, and has not already claimed this credit four times.
  - The student is enrolled at least half-time in a degree program
    - **Note:** If the student completed a four-year program in the first part of the current year, and then enrolled in a masters or PhD program, expenses for that advanced degree which are incurred in the current year *can be used for the AOC*. This is one reason why it may be advantageous to not claim AOC for the freshman year of a student, if that begins in the fall and therefore only five months of costs can be claimed.
  - Neither the AOC 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
    - **Note:** It may be advantageous to amend a prior year return where a lower AOC credit was claimed, and to instead claim the Lifetime Learning Credit [or, for 2017 or earlier, the Tuition and Fees deduction], in order to make the taxpayer eligible to claim a larger credit in the current year, assuming all other conditions are met. [There is no limit to how many years back this amendment can be made, because the taxpayer will be paying an additional amount with the amended return, but amended returns by Tax-Aide can only be done for the prior three years.]
  - The student has not been convicted of a felony drug offense
- With regard to those four years:
  - 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
  - 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
- Allowable expenses are tuition, fees, books, supplies, and (potentially) computers
  - It is the position of the Tax-Aide program that having a computer *is* needed for students *if* the student says that a computer is needed, as, for example, to look at homework assignments which are posted only online.
  - 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
  - If the credit is not fully used to reduce reduces, on Line 50 of Schedule 3, then the refundable portion can flow to Line 17c of Form 1040.
- **When the student is the taxpayer** and is less than 24 year of age, refer to [Pub 4012, page J-9](#), which is a set of seven questions to be answered to determine if the refundable part of AOC can be claimed
  - TaxSlayer asks these questions toward the bottom of the **Form 8863 – Educational Credit** page, if AOC has been selected. (“Are you eligible for the refundable portion of the American Opportunity Credit? Answer NO if 1, 2, & 3 apply to you:”) *If the student is not the taxpayer or spouse, ignore the 1, 2, and 3, and just answer “Yes”.*
    - If the student *is* the taxpayer or spouse, *and* questions 1, 2, and 3 do seem to apply, see the full set of questions in Pub 4012 for a final determination of whether to answer “Yes” or “No”.
  - If you reach question 7, and the answer to that question is “... no, you do not qualify...”, then education expenses should probably be used, if possible, for the Lifetime Learning Credit or as an expense or deduction on Schedule C or Schedule A.
- If the AOC was previously disallowed and the taxpayer is now – appropriately – claiming that credit, go to the **Information to Claim Certain Refundable Credits After Disallowance** menu page [Deductions > Credits Menu > Claiming Refundable Credits after Disallowance > ...]; reachable via the search box by entering 8862], and select “Claim AOTC After Disallowance”.
  - **Note:** The menu option “Claim AOTC After Disallowance” will only appear if Form 8863, claiming AOC, has been added to the return.

## Non-Refundable Credits

- o **Note:** If the IRS makes a final determination that the AOTC claim was due to reckless or intentional disregard of the rules, the taxpayer is barred from claiming that credit for the following two tax years. If the final determination is that fraud was involved, the prohibition is for ten years rather than two.
- o **Note:** Once a Form 8862 has been filed, it is *not* necessary to file that form in future years *unless* a claim for this credit is again reduced or disallowed.

## **Lifetime Learning Credit**

- This credit is limited to courses that are either (a) part of a post-secondary degree program or (b) taken to acquire or improve job skills.
- 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 note that normally such items can be purchased from places other than the institution
  - o Amounts paid by others, such as grandparents, are deemed paid by the taxpayer
- There is a limit of \$10,000 of costs per return, regardless of the number of students for whom this credit is claimed

## **Entering Education Information into TaxSlayer**

- To begin the process of claiming a benefit, go to the **Form 8863 - Educational Credit** page [Federal Section > Deductions > Credits Menu > Education Credits]
- Select the name of an eligible student
- Select which of the benefits is being claimed, and the dollar amount of qualified expenses for that benefit
  - o Qualified expenses for the two credits are discussed above. Also, expenses must be paid by the taxpayer (or spouse), not by a dependent or third party, and fees can include only amounts for books, supplies, and equipment used in a course of study, and only if required to be paid to the institution as a condition of enrollment or attendance.
- When AOC or Lifetime Learning is selected, TaxSlayer will display a box asking for more information about the educational institution
  - o Schools that qualify are listed at [fafsa.ed.gov/FAFSA/app/schoolSearch?locale=en\\_EN](https://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](https://edulisting.com)
- The question about whether the Hope credit or AOC has “already been claimed on 4 prior tax returns?” should be answered “No” *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.
  - o If the question is answered “No”, then answer the next one to three questions.
    - Also, create a note (per page 9) 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
  - o **Warning:** TaxSlayer may determine that the credit selected by the preparer was incorrect – for example, AOC was checked but TaxSlayer decided that the taxpayer wasn’t eligible, and instead awarded the Lifetime Learning Credit. *Look at the listing* that appears after clicking “Continue” to determine if the expected credit was awarded
  - o For either of the two credits, TaxSlayer creates Form 8863, one of ten forms for which – *starting with tax year 2017* - a PDF can be created from a menu within the return.
- **Note for CA state returns:** CA has no education credits, so education expenses allocated on the federal return for an education credit 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 101, 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 on the CA return, **and** cannot use some or all the expenses as a Schedule C, adjustment **and** the educational expenses are job-related, then – subject to the 2%-of-AGI reduction, the educational expenses can be added to the CA return as an additional itemized deduction
    - Follow the procedure in the section Additional CA Itemized Deductions on on page 104

## **SCHEDULE 3, 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: in Box 12, codes **D, E, F, G, H, S, AA**, and/or **BB**; in Box 14, an amount coded, in TaxSlayer, as “Retirement (Not in Box 12) – Carry to Form 8880”
- 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 Booklet, and specifically Part IV, question 2)
  - Traditional IRA contributions will have been entered in the **IRA Deduction** page, as described in the Schedule 1, Line 32 - IRA Deduction section, on page **66**
  - Roth IRA contributions are entered on the **Retirement Savings Contributions Credits** page, as described below
- For taxpayers who made contributions as described above, other factors may be disqualifying:
  - o The taxpayer was not 18 years old as of January 2, 2019, for the 2018 tax year
  - o The taxpayer was claimed as a dependent on someone else’s return
  - o The taxpayer was a full-time student during the year.
- If, based on the above, the taxpayer is eligible, determine if the taxpayer’s income is too high. Review the following *after the taxpayer’s AGI has been determined*:
  - o For 2018, the credit is not available to those whose incomes (AGI) were above the following:
    - Single: \$31,500
    - Head of Household: \$47,250
    - Married Filing Jointly: \$63,000
  - o TaxSlayer correctly prevents award of this credit if an income limit is exceeded; no further action by the preparer is needed. No Form 8880 is created.
- If the taxpayer *did* make a contribution, *did not* have a disqualifying factor, and *did* stay under the AGI limit, then go to the **Retirement Savings Contributions Credits** page [Deductions > Credits Menu > Retirement Savings Credit]; this page is illustrated on [page G-10 of Pub 4012](#)
  - o In the first box, enter qualifying retirement distributions **made in 2016 and 2017, but not 2018**. (The software automatically includes, in its calculations, 2018 information.)
  - o The second box often requires an entry.
    - TaxSlayer subtracts, against 2018 contributions, the amount on Line 4a (**gross** amount of IRAs, pensions, and annuities), to determine if there is a *net* contribution amount, which would then qualify the taxpayer for a contribution. But sometimes TaxSlayer subtracts *too much*; the second box is the way to correct that.
    - Enter, in the second box, as a negative number the total of
      - *Distributions* that are rollovers, or otherwise should not be included – see the list on [page G-11 of Pub 4012](#)
      - *Pensions and annuities* where the taxpayer (or spouse, as relevant) *could not have made a voluntary contribution*. Military pensions are one example.
    - Enter, in the third box, the total of current year traditional or Roth IRA contributions
      - Do include the traditional IRA contributions entered elsewhere; TaxSlayer does not automatically include those in its calculations
      - If you enter an amount in the third box, TaxSlayer will, when you exit the Form 8880, show that amount as “Taxpayer contribution”, on a “list” page. Whether or not such an entry appears has nothing to do with whether TaxSlayer’s determines there will or will not be a retirement savings credit.
    - The fourth box involves deferred salary arrangements, which are *out-of-scope*;
- After entering information on the **Retirement Savings Contributions Credits** page, you can see what Form 8880 will look like from the Credits menu – this form is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a menu within the return
  - o You can only see the Form 8880 if TaxSlayer calculates that a retirement savings credit is applicable; if it does not, it doesn’t create Form 8880
- If the taxpayer meets all the requirements for the retirement credit *except* for being a student, TaxSlayer correctly calculates the credit as being zero, but includes a Form 8880 in the PDF of the tax return. If this form is printed as part of the taxpayer’s copy of the tax return, discard and shred it.

## **SCHEDULE 3, LINE 53 - RESIDENTIAL ENERGY CREDITS**

The residential energy credit (Sec. 25C, which provides a 10% credit for qualified nonbusiness energy property) *expired* on December 31, 2017.

**Note:** Credits for solar electric property and solar water heating property do not expire until December 31, 2021, but have never been in-scope for the Tax-Aide program. Only Part II of Form 5695 has been in-scope.

## **SCHEDULE 3, 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 11 of the 1040), it will have no impact on the taxes owed, but still should be entered because it can impact calculations such as the taxable amount of a state income tax refund.
- 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 screening sheet on **Page G-14 of Pub 4012** to determine whether a taxpayer qualifies
    - **Pub 524, Credit for the Elderly or the Disabled**, 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 > 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 Page 1 of the Intake Booklet 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, Qualified 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**

### **SCHEDULE 4, LINE 57 - SELF-EMPLOYMENT TAX**

- TaxSlayer determines the amount on Line 57, Self-employment tax, based on information entered on Schedule C; for 2018 the amount is 15.3 percent of net income on Schedule C, up to the first \$128,400 of net income, and 2.9 percent beyond that.



- o **Note:** No self-employment tax is owed if net income on Schedule C 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 **53**
- 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

#### **SCHEDULE 4, 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 1), page **30**
- 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*

#### **SCHEDULE 4, 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 Schedule 4
  - o 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** or code **J** in box 7 of a Form 1099-R. The surtax is 25% in the case of a SIMPLE early withdrawal – code **S** in box 7 of the Form 1099-R
  - o While code **J** is potentially subject to the penalty, if it was determined to be in-scope per the chart on page [page D-36 of Pub 4012](#)
  - o , then it isn’t subject to 10% penalty
  - o **Note for CA state returns:** CA also assesses a 2.5% penalty on Form 3805P; this appears on line 63 of the Form 540.
- 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 **38**

##### ***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 fully 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.
  - o If so, the return is in-scope; the distribution is not reportable as income and does not have to be entered into TaxSlayer
    - Qualified expenses paid from an ABLE account can’t be used elsewhere on the tax return
  - 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 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.

## Other Taxes

- If the taxpayer is still working for an organization, the taxpayer is not required to make withdrawals from that organization's 401(k) or 403(b) plans, regardless of age, *if* they still participate in the plan, and *if* the organization's plan so allows.
- 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:** While this form is *not* required in order to do a tax return, it may be necessary to ask the taxpayer to return with it if taxpayer was 71 ½ years or older in the tax year, has one or more qualified retirement accounts, and has made *no* withdrawals, or very limited withdrawals, during the tax year.
- An IRA owner must calculate the RMD separately for each IRA that he or she owns, but can withdraw the **total** amount from one or more of the IRAs. Similarly, a 403(b) contract owner must calculate the RMD separately for each 403(b) contract that he or she owns, but can take the **total** amount from one or more of the 403(b) contracts.
  - However, RMDs required from other types of retirement plans, such as 401(k) and 457(b) plans, have to be taken **separately** from **each** of those plan accounts.
- SEP and SIMPLE 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.
- To report a RMD which has not been taken, go to the Part IX of the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution]
  - 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
  - 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 one retirement account, calculate and enter the total of all RMD amounts
- On the **Form 5329** page, a waiver of the 50% surtax may be requested. To do so:
  - Check the box labeled “Check here to claim a waiver ... “
  - Enter the amount for which a waiver is being requested
  - Provide the IRS with an explanation.
    - A waiver request 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 return is filed, but if that would delay the return beyond April 15, don't wait for remediation before filing the return.
  - There are two recommended ways to get the explanation to the IRS, both involving the 70-character field which (after the box is checked) will be at the bottom of the **Form 5329** page:
    - Use the 70 character field to make the explanation (70 characters is roughly 14 words)
    - Or, in the field, write “See separate explanation, attached”, then put the information into one or more Preparer Notes; each of these notes can have up to 1000 characters of information.
    - The easiest way to attach a statement is to use one or more Preparer Notes, of up to 1000 characters each, that are sent to the IRS with the e-filed tax return [new, June 2018]. To create a Preparer note, go to the **Preparer Note** page [Miscellaneous Forms > Explanations > ...]
  - Form 5329 is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a menu within the return

### **SCHEDULE 4, LINE 60A - HOUSEHOLD EMPLOYMENT TAXES (out-of-scope)**

### **SCHEDULE 4, 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*
  - 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 [irs.gov/individuals/first-time-homebuyer-credit-account-look-up](https://www.irs.gov/individuals/first-time-homebuyer-credit-account-look-up)
  - **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, the 2008 tax return was a MFJ return, and the 2018 tax return is also a MFJ return, then separate pages are required for the taxpayer and spouse
  - Each is credited with half of the repayments made in prior years
  - If one spouse on the 2008 tax return 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
  - Repayment is affected by whether the house was disposed of at a profit or loss
  - 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]
  - Note that this TaxSlayer 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* – instead, see the next paragraph (“**Note**”)
  - 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 2018 tax return, be eight times \$500, for a total of \$4,000.
  - *Do not assume that the taxpayer has paid only the minimum amount each year – ask.* If the taxpayer is unsure, that information can be looked up on-line (see the [irs.gov](https://www.irs.gov) link above).
  - If the current year’s return will not be the final one for repayment of the loan, then create a note (page 9) as a reminder for next year that Form 5405 must again be completed
  - Click “Continue” when done
  - **Note:** Form 5405 is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a menu within the return, in this case, the **Other Taxes** menu page
- **Note:** The first-time homebuyer credit **claimed during 2009, 2010, and 2011** was essentially a *grant*, not a *loan*.
  - **However, that credit was subject to repayment** if, with some exceptions, one or both 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
    - The home was no longer used as the main home

#### **SCHEDULE 4, LINE 61 - HEALTH CARE: INDIVIDUAL RESPONSIBILITY**

**Note:** The shared responsibility penalty – for not having health coverage – **remains in effect for calendar year 2018**. Congress has passed a law ending the penalty *beginning on January 1, 2019*.

- **Note:** In October 2017, the IRS announced that if Line 61 was left blank, the IRS would reject the return if filed electronically. In any case, it is Tax-Aide policy, as well as a requirement of TaxSlayer software, that the information to complete Line 61 of Schedule 4 must be entered for any taxpayer who receives the services of the Tax-Aide program.

#### ***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 in the section Schedule 2, Line 46 - Excess Advance Premium Tax Credit Repayment, above, on page 81.
- For tax year 2018, the penalty for no health insurance for the entire year is either a flat rate (\$695 per adult, plus \$347.50 for each person under 18), or 2.5% of MAGI, whichever is greater.
  - If insurance was missing for only part of the year, then the penalty is adjusted accordingly.
  - 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.

## Other Taxes

- The taxpayer can still claim the individual as a qualifying child for EIC, because support is not a requirement for EIC
- **CA process note:** The taxpayer can also still claim the dependent on the CA return. This *is* possible, in TaxSlayer – for the process, see the end of the Dependents and Qualify Children section, on page 23.
- Under current law, there will be no penalty for lack of insurance starting in tax year 2019 [January 1, 2019]
- 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 that insurance was “Minimum Essential Coverage” (MEC).**
  - The TaxSlayer page lists examples of MEC, and more can be found on [page H-6 of Pub 4012](#).
    - As mentioned on the list, Medicare *is* MEC, as is Medicaid (in CA, called “Medi-Cal”). *Only Part A* of Medicare is required to meet the MEC requirement; the absence of premiums paid on an SSA-1099 (for Parts B, C, D, and/or Medicare Advantage) is *not necessarily* an indication that the taxpayer didn’t have Medicare.
  - Most insurance plans are MEC; examples that are not, such as standalone dental and vision plans, are mentioned at the top of page H-6 of Pub 4012
  - 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 provide a [Form 1095-A, Health Insurance Marketplace Statement](#)
  - Starting with tax year 2015, some employers and insurers are required to issue [Form 1095-B, Health Coverage](#), or [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).
    - **If the taxpayer does not have a Form 1095-B or Form 1095-C**, and there is a reason to believe they should have been issued one, *do not request that the taxpayer return at another time, with the form, unless it is clear that information on the form could affect the tax return.* Normally such forms do *not* affect tax returns because we generally accept the word of the taxpayer about what health coverage they had during the year.
  - For taxpayers with **no health insurance**: the IRS has asked that Tax-Aide volunteers notify such taxpayers that they should visit a Marketplace website 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.]
    - **CA process note:** The California marketplace is Covered California, at [coveredca.com](#)
- If you answered “Yes” on the first page, then the next 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 Schedule 2, and the related Line 70 on Schedule 5, will be **zero**; if the answer is “Yes”, then there will be related questions; again, these are covered in the instructions for Schedule 2, Line 46 - Excess Advance Premium Tax Credit Repayment, on page 81.

### 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.
- TaxSlayer may include, as a “household member”, someone listed in the Basic Information section, but NOT claimed as a dependent, for example, because of a divorce decree. (Such a person, though not a dependent, can qualify the taxpayer for other benefits.) If this occurs, the workaround to avoid a penalty from being assessed for that person – penalties only apply to dependents for whom an exemption is claimed - 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

- 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 Schedule 4 will be zero
- If you answer “No”, that the taxpayer’s entire household was **not** insured for all 12 months, then TaxSlayer asks for the number of insured months for each person in the taxpayer’s household.
  - **Note:** If a household member was **born** and/or **died** during the year, that member should be considered to have *full year coverage* if that member had MEC for all the months after the birth month, and/or all months prior to the death month.

- When you specify anything less than 12 months coverage for someone on the tax return, you'll see a subsequent page (**Months Insured**) for that person, asking for specific months.
  - 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.

### ***Dependents' Modified AGI (if filing requirement)***

- This TaxSlayer page will be visible only if the taxpayer has dependents on the return. It requires information to be entered **only** for dependents 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 H-11 of Pub 4012](#) has information on when dependents are **required** to file a tax return

### ***Household Income***

- Premium amounts paid through a salary reduction agreement are exceedingly rare. These may show on a Form W-2 as a note in box 14 about a Section 125 "Cafeteria Plan", or may be on the taxpayer's final check stub for the year.
  - This is pre-tax dollars used for medical premiums, other than money initially put into an HSA.

### ***Health Care 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 on Schedule 4). But there are exemptions that can reduce or eliminate this payment. TaxSlayer automatically checks for the filing threshold exemption.
- TaxSlayer may say, on this page, "You qualify for the coverage exemption for Household or Gross Income below the Filing Threshold. Please select continue and we will apply the coverage exemption to the return." If you see this, click "Continue"; the taxpayer has no penalty amount, and you're done with the Health Insurance section.
  - Box 7 on Form 8965 will be checked by TaxSlayer.
  - **Warning:** If TaxSlayer determines that there is gross income exception, and the taxpayer had capital gains and losses, gains should have been entered separately from losses. If this was *not* done, then corrections should be made, and then the Health Insurance section should be revisited.
- Your goal, as the preparer, is to find all exemptions which the taxpayer can legally claim.
- If you tell TaxSlayer that the taxpayer does qualify for an exemption "due to circumstances or receiv[ing] an exemption certificate from the marketplace", then TaxSlayer will – potentially - create a [Form 8965, Health Coverage Exemptions](#). (This form is one of ten for which - *new as of the 2017 tax year* - a PDF can be created from a page within the return; this is printable from the **Health Coverage Exemptions** page – see below, when the small "Print" and printer icon appear to the left of the "Continue" button.)
  - Clicking "Continue" will go to the page where an exemption can be specified
  - **Note:** As of tax year 2018, Form 8965 is not required if everyone in the household had either coverage or an exemption for every month of the year.

### ***Health Care Exemption***

- This page is used to specify a specific exemption for a specific individual; if there are multiple exemptions on the return, this page will be used multiple times.
  - **Note:** *TaxSlayer does not calculate whether all missing months of MEC coverage have been taken care of by exemptions. It doesn't object if exemptions overlap with each other, or with covered months.* So you need to keep track of these yourself; normally this isn't very complicated.
- A description of exemptions begins on [page H-9 of Pub 4012](#). An excellent guide to exemptions is the "Affordable Care Act Exemptions – TY2018 Quick Reference Guide", posted to the Portal on December 28, 2018. Flowcharts and detailed information about the affordability exemption is covered in the "ACA Flowchart TY 2018" document, posted to the Portal on December 31, 2018.

## Other Taxes

- If you expect to use the affordability exemption (or to test whether the taxpayer is entitled to it), use the Bogart Affordability Calculator **first**, since this exemption removes the need to claim any other. **Do not use the TaxSlayer Affordability Worksheet.**
- If the taxpayer has already requested a Marketplace exemption, answer “Yes” to the question about a marketplace-issued certificate. Answer “Yes” **only if** the taxpayer already has the certificate, or has applied. If not yet received, use “PENDING” as the Exemption Certificate Number (ECN). [The IRS receives updates from the Marketplace and follows up as needed.]
- To claim a standard coverage exemption, answer “No” to the question about a marketplace-issued certificate [this will presumably change in TaxSlayer; information here is as of December 12, 2018], and select an exemption from the pull-down menu on the page.
  - For the “Short gap in coverage” exemption [code B]: if the one or two-month gap involves January, you must check the **prior year** return to determine if Code B was used for November and December, in which case that code cannot be used for January or February of the current year tax return. If Code B was used for December alone, in that prior year return, then Code B can be used for January of the current year, but **only if** there was health insurance coverage or a different exemption for February.
  - If a household member was **born** and/or **died** during the year, and the member didn’t have MEC for one or more months that the member was alive (exclude the months of birth and death), and no other exemption applies, then code “H” should be used as an exemption for the months that the member was **not** alive, *including* months with the birth or death.
- If the taxpayer qualifies for a hardship exemption, the taxpayer **no longer needs to request that through the Marketplace**. The Department of Health and Human Services (HHS) issued guidance on September 12, 2018, that allows a hardship exemption to be claimed directly from the IRS – that is, directly through filing a tax return.
  - There are fourteen categories of hardship exemptions; these are listed at the bottom of [page H-15 of Pub 4012](#). If non-hardship exemptions don’t cover uninsured months, carefully review those categories.
  - All hardship exemptions are entered with the same code, “G”, on drop-down list that has all the standard exemptions. [New, December 2018]
- Once you’ve entered information for one exemption, and clicked “Continue”, you’ll be at the **Health Coverage Exemptions** page. Here you can add another exemption, or:
  - If all months without insurance have been covered by an exemption, click “Continue”
  - If there are no more exemptions to be claimed, including affordability, click “Continue”

### **Penalty Amount**

- As mentioned above, for tax year 2018, the penalty for no insurance for the entire year is either a flat rate (\$695 for each uncovered adult, half that for anyone under 18) or 2.5% of MAGI, whichever is greater.
  - Penalties for prior years are listed on [page H-22 of Pub 4012](#)
- If the taxpayer did not have full-year coverage for everyone on the tax return, *look at Line 61 of Schedule 4*, 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 (either in the PDF of the tax return, or by creating a PDF of this form separately from within the 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 of Schedule 4, discuss that penalty amount with the taxpayer and review (if not already discussed) whether they may be eligible for an exemption, as discussed starting on [page H-15 of Pub 4012](#).

### **SCHEDULE 4, 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*

**SCHEDULE 4, LINE 63 - SECTION 965 NET TAX LIABILITY (out-of-scope)**

**PAYMENTS AND REFUNDABLE CREDITS**

**LINE 16 - 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 **9**) is recommended for *each* entry on this page

**LINE 17A - 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 there is no qualifying dependent**. If there is a qualifying dependent, *there is no age limit*.
    - If filing MFJ without a qualifying child, 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
- To claim EIC for a dependent, that dependent must have a SSN.
  - **Warning:** a return *cannot be amended to retroactively claim EIC after a dependent gets a SSN. If the taxpayer expects to get that SSN by October 15, he/she must file an extension rather than file the tax return in order to preserve the right to EIC for that dependent.*
- For 2018, the **income limits** (after which the taxpayer is not eligible for EIC), are:

<u>Filing Status</u>	<u>Qualifying Children Claimed</u>			
	<u>Zero</u>	<u>One</u>	<u>Two</u>	<u>Three or More</u>
Single, HoH, or QW	\$15,270	\$40,320	\$45,802	\$49,194
MFJ	\$20,950	\$46,010	\$51,492	\$54,884

- 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”).
  - The notice (in a box with a light green background) is titled “REASONS FOR NO EARNED INCOME CREDIT (EIC)”.
- If EIC disallowed in a prior year, more information must be entered into the tax return in order to claim EIC for 2018
  - The **Information to Claim Certain Refundable Credits After Disallowance** menu page [Deductions > Credits Menu > Claiming Refundable Credits after Disallowance > ...]; reachable via the search box by entering **8862**] is needed only very infrequently for EIC issues. It used when you need to (a) claim eligibility for the EIC when that is has been disallowed in a prior year, or (b) to disallow EIC when TaxSlayer has calculated an amount for that credit.
  - **Note:** If the IRS makes a final determination that the disallowed claim was due to reckless or intentional disregard of the rules, the taxpayer is barred from claiming that credit for the following two tax years. If the final determination is that fraud was involved, the prohibition is for ten years rather than two.
  - **Note:** Once a Form 8862 has been filed, it is *not* necessary to file that form in future years *unless* a claim for this credit is again reduced or disallowed.
- 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, Line 17a.

**LINE 17B - ADDITIONAL CHILD TAX CREDIT**

- If a taxpayer’s tax liability is less than the allowable non-refundable CTC, as discussed on page **80**, then the taxpayer may be able to claim the refundable ACTC

## Payments and Refundable Credits

- o TaxSlayer computes this credit automatically; the calculations are shown on Schedule 8812, which is viewable as part of a full PDF for the return.
- The ACTC is limited to 15% of any earned income above the current year's limit (\$2,500 in 2018), but taxpayers with three or more children may also be eligible for the additional child tax credit regardless of their income.
  - o **Note:** For self-employment, earned income is calculated by taking the amount on Schedule 1, Line 12 (Business income) **minus** the amount on Schedule 1, Line 27 (self-employment tax).
- The total of the two credits (the part of Line 12a that is for the non-refundable child tax credit, plus Line 17b, refundable) will be \$2,000 or less per eligible child.
- If the CTC and/or ACTC was reduced or disallowed in a prior year and the taxpayer is now – appropriately – claiming one or both of those credits, go to the **Information to Claim Certain Refundable Credits After Disallowance** menu page [Deductions > Credits Menu > Claiming Refundable Credits after Disallowance > ...]; reachable via the search box by entering 8862], and select “Claim CTC/ACTC After Disallowance”.
  - o **Note:** If the IRS makes a final determination that the disallowed claim was due to reckless or intentional disregard of the rules, the taxpayer is barred from claiming that credit for the following two tax years. If the final determination is that fraud was involved, the prohibition is for ten years rather than two.
  - o **Note:** Once a Form 8862 has been filed, it is *not* necessary to file that form in future years *unless* a claim for this credit is again reduced or disallowed.

### **LINE 17C - AMERICAN OPPORTUNITY CREDIT**

- Up to 40% (maximum \$1,000) of the AOC may be refundable
  - o See the American Opportunity Credit (AOC) section, page **87**

### **SCHEDULE 5, LINE 66 - 2018 ESTIMATED TAX PAYMENTS**

- These are payments that the taxpayer HAS MADE using Form 1040-ES (federal) for the CURRENT tax year, plus any overpayment amount from the prior year that was credited toward estimated taxes for the current year
  - o **Note:** See Federal Estimated Tax Payments, page **111**, 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 2018] and enter information using taxpayer information (actual amounts paid) and, if applicable, the prior year's tax return
  - o Before entering a figure for “Amount Applied from Prior Year Refund”, confirm with the taxpayer that the expected refund (on the tax return) was actually received by the taxpayer, and not changed by the IRS

### **SCHEDULE 5, LINE 70 - 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”, was 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.)
- If Line 70 of Schedule 5 has an amount in it, an adjustment may be required to Schedule A.
  - o If the taxpayer itemizes, and the itemization includes medical expenses, and those medical expenses include the premiums paid for health insurance purchase on an exchange, such as Covered California (these will be listed in the “monthly enrollment premiums” column on the Form 1095-A), then the amount entered into Schedule A must be *reduced* by the amount on Line 70 of Schedule 5.
    - This is an exception to the rule that only income received and expenses incurred within a calendar (tax) year can be included on the return for that year
- For details about how this credit is calculated, see the section Schedule 2, Line 46 - Excess Advance Premium Tax Credit Repayment on page **81**.

### **SCHEDULE 5, LINE 71 - AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE**

- Line 71 of Schedule 5 is only used when preparing a tax return after the regular filing season has ended, at a site open during the summer and fall, or if when a prior year tax return.
- For the tax year being prepared, if the taxpayer requested an extension, by filing Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to delay tax filing for up to six



months, then the taxpayer **may** have made a payment with that extension request. **Ask the taxpayer if such a payment was made, and if so, how much was paid.**

- o If the taxpayer is unsure of the amount – or even whether an amount was paid – then do not guess; *do not* enter a dollar amount. 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 71.
- If the taxpayer confirms that a Form 4868 was filed and knows the payment amount that was made for the tax year being prepared, enter that payment into TaxSlayer: go to the **Amount Paid With Extension Request** page [Federal Section > Payments & Estimates > ...]

### **SCHEDULE 5, LINE 72 - 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 (\$128,400 for 2018)

### **SCHEDULE 5, LINE 73 - FEDERAL TAX ON FUELS, FORM 4136 (out-of-scope)**

### **SCHEDULE 5, LINE 74 – OTHER CREDITS**

- In-scope only for credit due to repayment of previously taxed income.

## **STATE SECTION AND CA ADJUSTMENTS & DIFFERENCES**

### ***Suppressing the California Return***

- In some cases you won't want a CA return - for example, the taxpayer did not live in California for the entire tax year (CA Tax-Aide policy is that part-year CA returns will not be prepared)
- There are two ways to prevent or remove a CA return from TaxSlayer:
  - o In TaxSlayer, a state return will be specified on the **Personal Information** page in the Basic Information section, in the field labeled "Resident State as of 12/31/2018". Change the value to read "none".
  - o Or you can click on "State Section", in the left navigation bar. If you see a state return listed (presumably "California"), click the trashcan icon on the far right to remove that state return
- The ERO **must** be made aware that there will be no CA return:
  - o In your Activity Reporting log, record that the tax return is "Federal only".
  - o Also create a note (page 9) saying that there is no CA return, if such a note doesn't already exist.

**The information below identifies specific situations that MAY need to be addressed for a CA return. For most returns, none of the information in this section will require any action by a tax preparer.**

**If the preparer knows that there is no need to enter information in the State Section, that section of TaxSlayer can be ignored – but do confirm that a California return has been created in TaxSlayer.**

### ***When CA-Related Changes Take Effect 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 directly from a State Section page to a page in any other section of the return.*

### ***Renter Credit***

- For the taxpayer to be eligible for this credit:
  - o **Rent must have been paid** on a principal residence **in CA for 6 months** or more during the tax year
    - The residence could be a mobile home for which the taxpayer pays rent for the land, and property taxes or an in-lieu registration tax for the mobile home itself, or a boat slip, if the residence is a boat.
  - o The taxpayer **did not claim a homeowners property tax exemption** at any time during the year (to do so, the taxpayer must have owned a home at some time during the tax year)
  - o The residence where rent was paid was **not exempt from property taxes** (the most common case where no property tax is paid is when a property is owned by a non-profit organization, or a government entity)

## State Section and CA Adjustments & Differences

- o The taxpayer **did not live with another person for more than half the year**, where that person (such as a parent) **claimed the taxpayer as a dependent**.
- o At no time during the tax year was the taxpayer (a) a **minor** who also was (b) living with and under the **care of a parent, foster parent, or guardian**.
- If the taxpayer is eligible, based on these five criteria, answer “Yes” to the question “Do you qualify for the Renter's Credit?” otherwise answer “No”
  - o The FTB does not require that any supporting information, such as the name of the landlord or the landlord’s phone number, be submitted with the CA return. The taxpayer must be prepared to substantiate that they do pay rent, if audited.
- There are **two additional criteria** for eligibility for this credit – the taxpayer must be a CA resident for the entire year [but, of course, Tax-Aide does not do partial-year CA returns], and, for 2018, CA AGI must be \$41,641 or less (single) or \$83,282 (MFJ, HoH, or QW). TaxSlayer handles the income criterion correctly - if the question is answered “Yes” but the taxpayer’s income is too high, TaxSlayer will *not* give this credit to the taxpayer.
  - o Because TaxSlayer handles the income criterion correctly, it is recommended that the preparer answer the question based solely on the first five criteria above, *ignoring income*.
- The Renter Credit will show on CA Form 540, Page 2, line 46, **if** the question was answered “Yes”, and **if** the income limit was not exceeded.
  - o **Note:** Even though this is a *non-refundable* credit, and therefore has no value if line 34, Tax, on Page 2 of CA Form 540, is zero, TaxSlayer will *always* list the credit amount on Line 46 when the taxpayer is eligible for the credit.

### ***Viewing the PDF for the State Return***

- After completing a state return in the State Section, a printer icon will appear on the state return grid (on the page where the “Add Another State Return” link appears. Clicking the printer icon on the line listing a state return will open a new window that displays the PDF for the state return. [new, May 2018]

## **BASIC INFORMATION**

- This menu page has links to the following four pages. Information on those pages should generally have been entered (or noted as being *needed to be entered*) while the Federal Section was being worked on.

### ***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 [17](#).

### ***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***

- Information entered on this page, and related actions, are discussed in the Other Personal Information section, on page [20](#)

## **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
  - o 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.
  - o In TaxSlayer, CA Schedule CA is only viewable by looking at the PDF for the state return

- The quickest way to see this PDF is to go to the State Section, and click on the small printer icon.  
[New, May 2018]
- 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 CA Schedule CA, if that form appears in the PDF for the tax return.
- **Note:** CA Schedule CA has been *significantly revised for 2018*:
  - Part II, Adjustments to Federal Itemized Deductions, now has three columns similar to Part I, and will list line numbers to mirror what is in the 2018 version of the federal Schedule A
  - A new part III covers California-only itemized deductions, including deductions removed from federal Schedule A but still deductible on the CA return, such as job expenses and miscellaneous itemized deductions.

### ***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 (by posting to CA Schedule CA), then the difference must be entered **manually**:
  - On the State Section main menu page, select “Additions to Income” or “Subtractions from Income” by clicking on the applicable button to the right, then “Begin” or “Edit”
  - TaxSlayer allows three entries for additions, and three entries for subtractions
- The total of the addition(s) and the total of subtraction(s) amounts on these two TaxSlayer pages will appear on line 21f of Part I of CA Schedule CA, separately.

### **ADDITIONS TO INCOME**

California includes as income certain items which are not taxable on the federal return:

- Wages – HSA employer contributions – see Health Savings Accounts in CA, page [105](#)
  - The CA adjustment is done automatically by TaxSlayer.
- Interest from non-CA state and municipal bonds – see 1040 Line 2, page [32](#)
  - 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, page [105](#)
  - The CA adjustment must be **manually** entered.
- Dividends from non-CA municipal bond funds – see 1040 Line 3, page [34](#)
  - The amount to be taxable, if any, by the state can be specified
- Survivor benefits (on a Form 1099-R) 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; CA does not conform
  - The CA adjustment must be **manually** entered.
- Retirement payments from foreign governments, all of which are *out-of-scope* except Canadian and German Social Security - see page [46](#)
  - The CA adjustment for Canadian and German social security payments must be **manually** entered.
- Withdrawals from 529 plans that are used for K-12 expenses
  - If the taxpayer has a Form 1099-Q, the counselor must ask the taxpayer whether expenditures were for college-level expenses or for expenses at the K-12 level. If for K-12 expenses, a **manual** adjustment is required.
- Discharge of indebtedness pertaining to a main home was excludible on the federal return for tax years 2014 through 2017
  - California did not conform to the federal exclusion of income for those years. 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](http://ftb.ca.gov/aboutFTB/newsroom/Mortgage_Debt_Relief_Law.shtml))
    - Discharge of this type of indebtedness already made the federal return *out-of-scope* for these tax years, so conformity to California law is not an issue.
  - On December 31, 2017, the federal exclusion *expired*, making California law compliant with federal law for 2018.

## **SUBTRACTIONS FROM INCOME**

California does not tax certain income items which *are* taxable on the federal return.

- o **Note:** The question, on the **Other Subtraction 1** [or **2** or **3**] page, “Is this entry exempt Native American Income, which may be reported on FTB 3504?”, refers to [FTB Form 3504, Enrolled Tribal Member Certification](#). Tribal members are supposed to file this form (separately from their tax return) to document any income that is not taxable by CA. Except as noted below, the answer to the question will be “No”
- **Military income:** Active duty military pay is not included as part of California taxable income unless the military member is domiciled and stationed in California and the pay is earned in California.
  - o **Tax preparers must have the Military certification to prepare returns involving active duty pay**
  - o The CA adjustment must be **manually** entered
  - o See [FTB Pub 1032, Tax Information for Military Personnel](#), for other differences between federal and CA tax rules
- Clergy housing income – see [FTB Pub 1001](#) (but note that tax provisions peculiar to clergy make the return *out-of-scope*)
  - o **Indian tribal members’ income**, if the member lives and works on their own tribe’s land – see W-2 Indian Tribal Income, page **29**, and 1099-MISC Income on Line 21 of Schedule 1, on page **61**
  - o The CA adjustment must be **manually** entered; also answer “Yes” to the question about FTB Form 3504.
- **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.
- Interest paid on municipal bonds issued by the state of California, including counties, cities, and agencies - see the section Interest Income on Form 1099-INT, on page **32**
  - 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 bonds of the U.S. or U.S. territories – see page **32**
  - 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 - see the Line 3 - Dividends, on page **34**
  - o The amount to be taxable, if any, by the state can be specified
- Dividends from U.S. government bond funds (1040 Line 3) – see page **34**
  - o TaxSlayer provides a line to enter the adjustment on the page for the 1099-DIV information
- Any state tax refunds (1040 Schedule 1, Line 10) - see page **35**
  - o TaxSlayer automatically makes the adjustment
- **Work-related educational expenses for which education credits or a tuition and fees adjustment was claimed**
  - 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 those work-related educational expenses can be used to *reduce* income on the CA return [the reduction is the *lesser* of the educational expenses or the net profit]
    - The adjustment must be made **manually**.
- Tier II Railroad Retirement benefits (1040 Line 4) - see page **43**
  - o TaxSlayer automatically makes the adjustment
- Unemployment compensation paid by CA or another state (Line 16, Schedule 1) - see page **59**
  - o TaxSlayer automatically makes the adjustment
- Social Security benefits (U.S. only) (1040 Line 5) - see page **44**
  - o TaxSlayer automatically makes the adjustment. *If Canadian or German social security is entered, a manual adjustment is required, because these payments **are** taxable by California – see the next section.*
- Tier 1 Railroad Retirement benefits (1040 Line 5) - see page **45**
  - o TaxSlayer automatically makes the adjustment
- **CA Lottery winnings** (1040 Schedule 1, Line 21) – see page **60** (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** (1040 Schedule 1, Line 21) (see [FTB Pub 1001](#) for details)
  - o The CA adjustment must be **manually** entered.

- HSA distribution in excess of qualified medical expenses (1040 Schedule 1, Line 21) – see Health Savings Accounts in CA, page [105](#)
  - o The CA adjustment must be **manually** entered.

## **DIFFERENCES IN CALCULATING INCOME**

In three areas, California may calculate income differently than on the federal return.

### ***Inherited Property Basis Difference*** (page [54](#))

- For CA, for property inherited from decedents, the basis is always the fair market value (FMV) as the date of death
- The federal basis for property inherited in 2010 (and sold during the tax year) may be different than FMV; this will be shown on the [Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent \(2010\)](#). If the basis is not FMV, 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
  - o 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
  - o Thereafter, no further adjustment would be needed as CA follows federal IRA basis recovery rules
- [FTB Pub 1005](#) has detailed instructions and worksheets

<b>Year</b>	<b>Federal</b>	<b>California</b>
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 page [55](#) for how to determine this, and how to handle it.

## **FEDERAL ADJUSTMENTS NOT RECOGNIZED BY CA**

California does not recognize certain adjustments (reduction of income) that appear on the bottom half of page 1 of the federal Form 1040. On CA Schedule CA, the changes are entered as *subtractions* from what is on Form 1040; the net affect is to *increase* the income amount that is taxable (the California AGI). Three federal adjustments are affected:

- Educator expenses (Schedule 1, Line 23) - see page [64](#)
  - o TaxSlayer automatically makes the adjustment
    - However, if the taxpayer wants to claim this amount, on the CA return, as unreimbursed employee expenses (a type of itemized expense subject to a 2 percent AGI reduction on Schedule A), this is a **manual** adjustment – see the next section, below.
- Health savings account deduction (Schedule 1, Line 25) - see page [64](#) [these are *employee* contributions, which are *not* on Form W-2]
  - o TaxSlayer automatically makes the adjustment
- Tuition and fees (1040 Line 34, for tax years 2017 and earlier) - see page [68](#) [this *expired* on December 31, 2017]

- o TaxSlayer automatically makes the adjustment

### **ITEMIZED DEDUCTIONS TREATED DIFFERENTLY BY CA**

- CA treats some Schedule A itemized deductions differently than how they are handled on the federal return. Prior to tax year 2018, such differences were entered on lines 39 and 41 of CA Schedule CA, Page 2. However, starting with tax year 2018, CA Schedule CA has a new Part II, with line numbers that match Schedule A, so that the federal amounts and changes to the federal amounts, *by line*, are shown.
- Adjustments to federal deductions can be entered **manually** when TaxSlayer does not handle them automatically. To **manually** adjust deductions, in the State Section, select “Itemized Deductions”
  - o The **Itemized Deductions** page – as of 2018 – lists a number of line-by-line adjustments that can be made. For example, because the CA limits on home mortgage interest higher, as of 2018, than the federal limits, you might need to enter an increase in the “Additions - Home mortgage interest and points reported to you on Form 1098” box
  - o There is also a non-specific “Other Adjustments to California Itemized Deductions” option at the bottom of the page, for any changes that can’t go in fields elsewhere on the
    - On the **Adjustments To California Itemized Deductions** page, there is a single dollar field for all adjustments. A negative amount can be entered here as well as a positive amount. For example, CA Lottery losses entered on line 16 of the federal Schedule A are not deductible on the CA return, because CA Lottery *winnings*, reported on Line 21 of Schedule 1, aren’t taxable in CA, and would have been removed from the CA return by an entry on line 21 of Part I of CA Schedule CA. So, for example, if there were \$1000 of CA winnings, and an offsetting \$1000 of losses, you would enter \$-1000 for the dollar amount

### ***Additional CA Itemized Deductions (positive adjustments)***

- Medical expenses.
  - o Medical expenses reimbursed by an HSA account, as shown on Form 8889, are not deductible on federal Schedule A, but should be added to line 1 of Part II of CA Schedule CA. A **manual** adjustment is required.
  - o CA allows a deduction for medical expenses of taxpayers of any age to the extent that those medical expenses exceed 7.5% of their AGI. Since the federal threshold for tax year 2018 is also 7.5% for taxpayers of all ages, there is no additional CA itemized deduction
    - For tax year 2016, the federal threshold for those under age 65 was 7.5%; TaxSlayer handles this automatically]
    - For tax year 2015, a **manual** adjustment is needed for the 2.5% difference, again only for taxpayers under age 65.
- State and local taxes: As of tax year 2018, the total federal itemized deduction for state and local taxes (SALT) is limited to \$10,000.
  - o CA does not conform to this limitation; all real estate taxes and personal property taxes entered on the federal Schedule A, regardless of amount, will flow properly to lines 5b and 5c of Part II of CA Schedule CA.
    - Note that CA does not include state income tax or state sales tax in allowable itemized deductions, so any amount on line 5a of the Schedule A will be subtracted out on CA Schedule CA.
- Mortgage interest for home-related loans totaling over \$750,000
  - o CA does not conform to the reduction in mortgage and line-of-credit interest that can be deducted on the federal return, for loans made after December 15, 2017. Interest paid for a total of up to \$1 million in loans (\$500,000 MFS) is still deductible on the CA return, to the extent that these loans were used to buy, build, or improve a home.
    - The difference (interest on loan amounts over \$750,000 but not exceeding \$1 million) must be entered **manually** on line 8 of Part II of CA Schedule CA.
- Expenses that were subject to a 2%-of-AGI reduction
  - o As of tax year 2018, the entire category of itemized expenses subject to a 2%-of-AGI reduction, such as the expense of a safe deposit box, or tax preparation fees, **is no longer deductible on the federal Schedule A**. However, California conforms to allowable federal Schedule A deductions *as of 2015*, so such expenses *are still allowable* as a CA itemized deductions, still subject to a 2%-of-AGI reduction, of course. [The 2% is based on the **federal AGI**.]

- o Most of the “2%-of-AGI reduction” expenses that were allowed for the CA return were entered into Schedule A on the *federal* return. TaxSlayer handles such “no longer valid for federal, but possibly valid for states” deductible expenses by continuing to allow them to be entered in the federal itemization section.
  - These expenses are described in the section, on page
  - These expenses flow automatically from the federal Schedule A to Part III of CA Schedule CA.
- o There are three “2%-of-AGI reduction” expenses that are allowable on the CA return but are *not* included in the federal Schedule A. Both of these need to be entered **manually** into Part III of CA Schedule CA.
  - Educator expenses for which a federal deduction was claimed on Line 23 of Schedule 1, see page **64** (This is the deduction of up to \$250).
    - TaxSlayer automatically makes the adjustment to increase CA *income*, as mentioned above, but does not adjust itemized deductions. The expenses are claimable as CA itemized deductions *if* they were for professional development, but not otherwise – for example, the purchase of school supplies is not claimable on CA Schedule CA.
  - Work-related expenses for which a tuition and fees deduction [2017 and earlier] or federal education credit was claimed
    - TaxSlayer automatically increases *taxable income* if the tuition and fees deduction was taken [2017 and earlier] (see page **68**), but can’t know if expenses for either of the two education credits (see page **88**) or for the tuition and fees deduction were **work-related**. If they *were* work-related, **and** they were not used to reduce self-employment income on the CA return, then they *are* deductible on the CA Schedule CA, in Part III.

### ***Not Allowed by CA as Itemized Deductions (negative adjustments)***

- State or local income taxes (Schedule A, line 5a) – see page **71**
  - o TaxSlayer automatically makes the adjustment on line 5 of Part II of CA Schedule CA
- Foreign income taxes (Schedule A, line 6) – see page **74**
  - o The CA adjustment must be **manually** entered, as a subtraction (note that line 6 on the federal Schedule A is for all other taxes, not just foreign taxes)
- PMI deducted as interest on the federal return (Schedule A, line 13) – see page **77** [*note*: this federal deduction expired on December 31, 2017]
  - o TaxSlayer automatically makes the adjustment, on line 13 of Part II of CA Schedule CA
- Gifts to charity of the federal return (Schedule A, line 11) that were used on the CA return for the College Access Tax Credit, as discussed page **106**
  - o The CA adjustment, in the amount of the credit, must be **manually** entered, as a subtraction
- CA Lottery gambling losses (Schedule A, line 16) – see page **79**
  - o The CA adjustment must be **manually** entered, as a subtraction
- Repayment of unemployment benefits for a prior year (Schedule A, line 16) – see page **59**
  - o The CA adjustment must be **manually** entered, as a subtraction

### **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 (box 1) does not include the amount in box 12, but this amount is taxable on the CA return.
  - o TaxSlayer automatically makes the adjustment on line 7 of Part I of CA Schedule CA.
- 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 **101**.
- Capital gains or losses within the HSA trust are taxable by California
  - o In TaxSlayer, there is currently no way to make this adjustment
  - o **Note**: an adjustment may result in a different capital loss carryover for CA purposes
- For HSA distributions in excess of qualified medical expenses, on Form 8889, TaxSlayer includes the distribution in income on the federal return (on Line 21 of Schedule 1, Other Income); but it is not taxable for CA; a **manual** adjustment is required.

## State Section and CA Adjustments & Differences

- o Follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, on page [101](#).
- HSA contributions made by the employee (Line 25 of Schedule 1) reduce taxable income on the federal return, but CA does not recognize such reductions
  - o TaxSlayer automatically makes an entry on line 25 of Part I of CA Schedule CA to adjust for CA rules
- Medical expenses reimbursed by the HSA, as shown on Form 8889, are not deductible on federal Schedule A, but should be added to CA Schedule CA. A manual adjustment is needed for line 1 of Part II of Schedule CA.
  - o Follow the procedure in the section Itemized Deductions Treated Differently by CA on on page [104](#)

## **CA-ONLY CREDITS**

- All California-only credits are reached from Credits menu page in the State Section. On the Credits menu page, four specific credits are listed: Child Care Credit; Renter Credit; Schedule S, Other State Tax Credit; and the CA Earned Income Credit
  - 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 CA credits other than the four that are listed, use the **Other Credits** link
    - 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 CalEITC. That means that if line 34, Tax, is zero, then only the CalEITC can generate a tax refund for the taxpayer.

### ***Child and Dependent Care Credit (CA 3506) CA Form 540, Page 2, line 40***

- See Schedule 3, Line 49 - Credit for Child and Dependent Care Expenses, on page [84](#), regarding this credit. (Care must be physically provided within California.)

### ***College Access Tax Credit Code 235 CA Form 540, Page 2, lines 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 tax years 2016 through 2022
- 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 Not Allowed by CA as Itemized Deductions on page [105](#), for how to make that adjustment
  - o **Note: on August 23, 2018, the IRS issued proposed regulations that would require a similar reduction on the federal return; if implemented, CA would conform to the federal rules and would require no adjustment.**

### ***Joint Custody Head of Household Credit Code 170 CA Form 540, Page 2, lines 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 \$469 in 2018
- 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, lines 43-45***

- **Note:** There are very limited situations where a MFS return is in-scope – see page [16](#)



- This credit is available to a person filing MFS where
  - The spouse did not live in the taxpayer's household during the last six months of the year
  - The taxpayer has a mother or father who is their dependent
  - The taxpayer paid the costs of more than half of the household expenses of that dependent, whether or not the dependent lived in the taxpayer's home
- The credit is 30% of the tax due (CA Form 540, Page 2, line 35), with a maximum credit of \$469 in 2018
- **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, lines 43-45**

- This credit is available for a person 65 or older who
  - Qualified as head of household for 2016 or 2017
  - Does not qualify for HoH in 2018 because the qualifying relative for HoH died in 2016 or 2017
  - Whose AGI does not exceed \$76,082 for 2018 – **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 \$1,434 for 2018.

### **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 **99**

### **California Earned Income Tax Credit (CalEITC) CA Form 540, Page 2, line 75**

- Since tax year 2015, CA has had a refundable state EITC. The credit, which appears on CA Form 540, Page 3, line 75, can be as much as \$2,879 for 2018.
- Eligibility:
  - For 2018, **the federal** AGI must be less than \$16,751 or less if there are **no** qualifying children, and less than \$24,951 or there are **one or more** qualifying children.
    - Effective with the 2018 tax year, the taxpayer (or spouse, if a MFJ joint return) must be 18 years or older. *There is no longer a maximum age beyond which this credit cannot be received.*
    - The taxpayer cannot get CalEITC if he/she is eligible to be claimed as a dependent on another taxpayer's return.
  - The credit is based on earned income
    - **Beginning with tax year 2017**, income from self-employment **does** qualify as earned income when calculating the CalEITC; for 2015 and 2016 it did not.
    - To count for CalEITC purposes, any income reported on a Form W-2 must be subject to California withholding. That means that such employment must be in California.
  - 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
  - TaxSlayer will complete this form automatically. Manual entries on the **CA Earned Income Credit (Form 3514)** page are needed only if:
    - The IRS or the FTB previously disallowed the taxpayer's federal or CA EIC (respectively). [This doesn't disqualify the taxpayer, it just increases the likelihood of an audit.]
    - There was prison inmate income
    - There was income from a nonqualified plan. [Such plans are designed for executives and other select employees; if payment is via Form W-2, there will be an amount in box 11; if by Form 1099-R, the code in box 7 probably will be "D"]

### **CA USE TAX**

- CA use tax owe appears in line 91 of Form 540. Beginning in 2017, e-filed California tax returns *without information on the use tax owed* **may be rejected by the FTB.**
- Background: If someone in California buys merchandise, they must pay sales tax unless that item is specifically exempt (for example, food). If a California resident purchases a taxable item for use in California from an out-

## State Section and CA Adjustments & Differences

of-state vendor, and that vendor does not charge California sales tax, then the individual who purchased the item is still required to pay the California sales tax amount, in the form of “use tax”.

- o The taxpayer, or a member of the taxpayer’s tax family, could have ordered items on the Internet, or by mail (catalog sales), or by phone (800 call center), and not paid CA sales tax. (Vendors without a “physical presence” in California are not currently required to collect CA sales tax.)
- o The taxpayer could have made a purchase while out of state, and brought the purchased item back to California.
  - If the taxpayer paid another state’s sales tax on a purchase brought back to California for use within California, that payment can be subtracted from what would otherwise be owed, to the extent of the applicable CA use tax on that purchase.
  - 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. (Goods purchased from a vendor outside the United States and shipped to California are fully subject to use tax.)
- To enter the use tax amount for the taxpayer, **including zero dollars**, go to the **Tax** page [State Section > **California State Return** > ...], and enter an amount in the “Use Tax” field, then click “Save”
  - o If zero is entered, then TaxSlayer will, on the Form 540, check the box below line 91 that says “No use tax is owed.”
- To calculate the amount owed, the taxpayer has three choices:
  - o If the taxpayer has tracked out-of-state purchases made during the year, the total owed can be calculated using the taxpayer’s figures
    - This includes **a use tax of zero dollars**, if the taxpayer made no out-of-state purchases, or is sure that they paid CA sales tax on all out-of-state items shipped to them, and that, for all purchases made in person while out of state, the sales tax charged was at or above their local sales tax rate.
  - o If **all** items purchased without sales tax being charged **each** had a cost of less than \$1,000, then the taxpayer has the option of using the Estimated Use Tax Lookup Table [see below] to calculate the use tax owed
  - o 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 on page 15 of the [CA 540 booklet](#)
- The 2017 estimated Use Tax Lookup Table, *for taxpayers who did **not** purchase an untaxed item having a value of \$1,000 or more* (from [cdtfa.ca.gov/taxes-and-fees/use-tax-table.htm](http://cdtfa.ca.gov/taxes-and-fees/use-tax-table.htm)) is:

Adjusted gross income (AGI)	Use tax to be paid	Adjusted gross income (AGI)	Use tax to be paid
Less than \$10,000	\$2	\$80,000 to \$89,999	\$35
\$10,000 to \$19,999	\$6	\$90,000 to \$99,999	\$39
\$20,000 to \$29,999	\$10	\$100,000 to \$124,999	\$46
\$30,000 to \$39,999	\$14	\$125,000 to \$149,999	\$57
\$40,000 to \$49,999	\$19	\$150,000 to \$174,999	\$67
\$50,000 to \$59,999	\$23	\$175,000 to \$199,999	\$77
\$60,000 to \$69,999	\$27	More than \$199,999	Multiply by 0.041% (0.00041)
\$70,000 to \$79,999	\$31		

- Use tax for vehicles and mobile homes purchased outside of California should be paid directly to the California Department of Tax and Fee Administration (CDTFA); exclude such purchases from the calculations involving line 91 of the Form 540, **and – if the Use Tax amount is zero** - change the answer to the question “If your use tax is zero, did you pay your use tax obligation directly to CDTFA?” to be “Yes”.

### **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, 1099-G, 1099-INT, 1099-OID, 1099-R, and 1099-MISC 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 and 1099-DIV.
- For state withholdings amounts that appear on 1099-B and 1099-DIV forms, enter the amount of the state withholding on the **Payments - Other State Withholding** page [Federal Section > Payments & Estimates > Other State Withholdings]
- If the taxpayer is itemizing, the amount on the **Payments - Other State Withholding** page will be included, by TaxSlayer, as part of the amount on line 5a of Schedule A
- The amount on the **Payments - Other State Withholding** page should be included in the amount of state taxes paid on CA Form 540, which is on Page 3, line 71. TaxSlayer does this automatically.
- If state tax withholding is done from more than one 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 Home, which begins on page **56**), 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), page **112**, 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 *which are within the tax year* 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). 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.
  - See [pages K-14 and K-15 of Pub 4012](#) for detailed information on the various payment options that a taxpayer has.
- If a taxpayer cannot pay at all, or cannot pay in full, see the “Unable to Pay/Late Filing” section on page **123**.

## UNDERPAYMENT PENALTIES

- Calculation of estimated tax penalties is *out-of-scope*; Tax-Aide policy is that any penalties must be calculated by and billed by federal and state tax authorities
- If the taxpayer owes more than \$1,000 on their federal return, the taxpayer may be billed by the IRS for the underpayment.
  - **Note for CA state returns:** For CA, the threshold for penalties is owing more than \$500 on the return
  - Inform the taxpayer of potential penalty(ies), that the penalty(ies) will not be on the return, and that the tax authorities *may* send them a bill for the penalty amount(s)
  - Large amounts due should result in a discussion, with the taxpayer, about adjusting withholding on wages, pensions, Social Security, and other recurring payments, and/or making or increasing quarterly estimated payments. See page **111** for further discussion on this.

### ***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 23 of Form 1040.
  - To remove the amount of Line 23, 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 4-15-2019, 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
- Payment information is entered on the E-File page, in the "Taxpayer Bank Account Information" section – see page **114** for details, including how to give the taxpayer a printed record of the direct debit information.
- **Warning:** TaxSlayer may still print a 1040-V, Payment Voucher, as part of the copy of the tax return for the taxpayer. If it does print, **do not** give the document to the taxpayer.

### **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](https://ftb.ca.gov) to see a similar range of options (click on "Pay")

## **REFUND DUE**

**Note:** if a taxpayer's refund will be offset in order to pay a past debt to the IRS and this will cause an economic hardship for the taxpayer, the site coordinator should refer the taxpayer to the IRS Taxpayer Advocate Service (TAS), at 1-877-777-4778, *before* the taxpayer's return is e-filed.

### **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 Tax Preparation and E-File Information Section as described on page **114**
  - A taxpayer's federal refund can be deposited directly to the one or more taxpayer bank accounts, which gets the refund to the taxpayer at least one week sooner
  - The taxpayer is **not** notified by the IRS when the refund has been deposited, but can check online at [irs.gov/refunds](https://irs.gov/refunds)
- **Note for CA state returns: For a CA refund:**
  - TaxSlayer uses the **first-listed bank account** in the "Taxpayer Bank Account Information" section of the **E-File** page
    - In TaxSlayer, the CA refund cannot be split between two or more bank accounts.
  - The taxpayer will **not** be notified by the FTB when a refund has been deposited, but can check online at [ftb.ca.gov/online/refund/](https://ftb.ca.gov/online/refund/)

- o As of July 2018, if the FTB identifies a correctible problem with a tax return, such as an error in estimated tax payments made during the year, it will automatically correct the return and – when direct deposit has been requested – will still do direct deposit.
  - A notice of the correction will be sent to the taxpayer via mail, which may arrive *after* the direct deposit has occurred. The FTB has requested that taxpayers *not* call about a refund, if different than expected, until they have received a notice from the FTB (or, of course, until a reasonable period – a week or more – has occurred after the deposit occurred, and no notice has been received.)

## **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 Carryforward 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 – that is to be applied toward next year's taxes.

### ***California***

- 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 2019 tax return** page [State Section > Payments > ...]
  - o *This is not recommended*, as discussed above (applying a federal refund to next year's federal return)

## **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 policy:** Because Form 8379 requires income-splitting, it makes the return *out-of-scope*, because California is a community property state.
- **Note for CA state returns:** For the CA state tax return, there is no equivalent to the federal “injured spouse” allocation.

# **ESTIMATED TAX PAYMENTS FOR NEXT YEAR**

## **FEDERAL ESTIMATED TAX PAYMENTS**

- If a taxpayer expects a balance due of \$1,000 or more for next year's (2019) tax return, and wants to avoid the risk that the IRS will assess a penalty for underpayment, they should choose one or more of the following four options:
  - o Increase withholding from their paychecks using **Form W-4**, normally available from their employer, but which can be printed from the irs.gov website if necessary
    - **Note:** The IRS has an online tool to help complete this form, at <https://apps.irs.gov/app/withholdingcalculator/>
  - 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
    - **Note:** Form W-4V offers only four federal withholding options: 7%, 10%, 12%, and 22%, and state tax withholding is not available.
  - o **Make (or increase) quarterly estimated payments, as described in this section**
- To determine the quarterly amount for estimated tax payments (normally these are set to be equal), which will show on the quarterly Form 1040-ES:

## Estimated Tax Payments for Next Year

- o If no substantial change in income is expected for calendar year 2019, compared to 2018, the 2018 return can be used as the basis for determining the quarterly amounts
- o If a substantial change in income, filing status, dependents, or credits is expected in 2019, or has already happened by the time the 2018 return is being prepared, there are three options for calculating the approximate amounts that the taxpayer should pay as estimated payments:
  - Use the [IRS Withholding Calculator](#) [a link to this is available on the Main Menu page, at the bottom of the left navigation bar]
  - Use the Bogart “Estimated Tax Worksheet”, at [cotaxaide.org/tools/](http://cotaxaide.org/tools/)
  - Print the “2019 Estimated Tax Worksheet”, from the [instructions for Form 1040-ES](#), and fill that out with the taxpayer
- o Keep in mind that the taxpayer will owe no underpayment penalty for their 2019 tax return if the taxes withheld in 2019 are at least 100% of what was owed in 2018 (Line 15, Total Tax, on Form 1040)
- 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
  - o 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 payment can be for a different amount. If it is, the taxpayer should line through the printed amount on 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.
  - o 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 in the section Where to Mail Returns and Payments, page iv
  - o 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](http://IRS.gov/payments).

## **CA ESTIMATED TAX PAYMENTS (CA FORM 540-ES)**

- If a taxpayer expects a balance due of \$500 or more on next year's (2019) California tax return, they may
  - o Increase withholding from their paychecks ([Form DE 4](#) should be available from their employer, as well as online)
  - o Increase withholding from their retirement income (Form DE 4P is available at [edd.ca.gov/pdf\\_pub\\_ctr/de4p.pdf](http://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
  - o 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:
  - o If the 2018 and 2019 tax returns are expected to be about the same, use the CA Form 540 for 2018 to determine how much in estimated payments should be made in 2019
  - o If a substantial change in income, filing status, dependents, or credits is expected in 2019, or has already happened by the time the 2018 return is being prepared, consider using the 2018 California Estimated Tax Worksheet, which is in the instructions for CA Form 540-ES
- The FTB states that a taxpayer must pay at least the following to avoid a estimate penalty (the penalty is for paying the bulk of estimated taxes *later* in the tax year than they should be):
  - o 30 percent first quarter (due mid-April 2019)
  - o 40 percent second quarter (due mid-June 2019)
  - o 0 percent third quarter (due mid-September 2019)
  - o 30 percent fourth quarter (due mid-January 2020)
- 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 dollar amounts for the first, second, and fourth quarters. 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 make a payment in a different amount; if they do, they should simply line through the printed amount on Form 1040-ES, and write in the actual amount being paid
  - Taxpayers do not have to make estimated payments 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](http://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 **117**.

### **WARNINGS AND ERRORS**

#### *Warnings Page*

- If there are Notes for the return (see page **9**), 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, the **Warnings** 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, the **Errors** page won’t be shown

### **E-FILE PAGE**

The next page [in most cases, the first you’ll see] in the E-file section is the **E-File** page, which has eight sections.

- Click “Save” when finished with all the sections.

#### *Return Type Section*

- In this section, there are two modifiable fields
  - Checking the “Send State Only” box will result in e-filing of *only* the state return - the return will **not** be transmitted to the IRS
    - This is typically used when the federal return has been accepted but the state return rejected; after making corrections, the return can be submitted directly, by checking this box and using the “Save and Transmit Return” button on the next page, if having ERO capabilities
    - **CA process note:** For someone not an ERO, this box should be checked only after getting approval from the LC
  - 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. The wording was changed for 2017 returns to make the choices clearer.

## E-File Section

- “E-File:Mail Payment” includes *any* payment option other than direct debit from a bank account that is specified in the return. (Taxpayer options in paying an amount due are discussed in the Balance Due section on page 109.)
- [Workaround] *If the taxpayer is neither getting a refund from nor owes money to the IRS*, select “E-File: Mail Payment” if the return is to be filed electronically; otherwise select “Paper Return”.

## Tax Preparation and E-File Information Section

- In this section, the only fields that might be used are “Primary Client Email” and “Secondary Client Email”. Otherwise, if you’re in this section, just click “Next”.

## State Return(s) Section

- In this 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
  - **Note for CA state returns:** If the taxpayer has a balance due, and is going to pay this via a direct debit from a bank account, the printed return should 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.
    - Also make sure that if TaxSlayer puts a dollar amount on this form, that it matches exactly what is owed per the CA Form 540.

## Taxpayer Bank Account Information Section

- In this 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.)
  - The taxpayer does not have to void the check; in fact, it does not even have to be removed from the taxpayer’s checkbook.
  - 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
  - It is *not* acceptable 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
  - 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
    - Documents, in a note (page 9), 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 because the use of Form 8888, Allocation of Refund (Including Savings Bond Purchases), is mandatory as of tax year 2018.
    - The **state** refund or payment (if done electronically) will use the first account listed. (A state refund or payment can never be split among multiple accounts in TaxSlayer.)
    - Use the “Pull Refund” button if the entire refund amount is to go into the first account that is entered (which for most returns will be the *only* account entered)
    - TaxSlayer will not include a Form 8888 in the printed tax return unless multiple bank accounts are entered.f
  - 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.



John Doe  
Mary Doe  
1234 Main Street  
Anytown, CA 99999

1234  
15-0000/0000

19

PAY TO THE ORDER OF \$ [ ] DOLLARS

ANYTOWN BANK  
Anytown, CA 99999

For

I: 250250025 I: 202020 1234

Do not include the check number

- o If the site administrator 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
- o If there is a “Direct Debit Information” area, the “Requested Payment Date” field must be 04/15/2019 **or earlier**. The phone number – required – is that of the taxpayer; it auto-fills from the phone number entered in the Basic Information section.
  - **Warning:** TaxSlayer includes direct debit information for the federal return in a form – the Client Form Listing Summary – that is usually *not printed and therefore not given to the taxpayer*. To provide documentation for the direct debit, generate the Quality Review PDF and print **only** the page which includes the direct debit information

### **Third Party Designee Info Section**

- If you’re in this section, you usually just click “Next”. This section is only used when the taxpayer is designating someone who can speak to the IRS on their behalf.
  - o 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
  - o If an elderly taxpayer 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
  - o Third Party Designee information will appear on Form 1040 (except amended returns) just above the signature line. An authorization expires one year from the due date of the tax return.

### **Consent to Disclose Tax Return Information Section**

- For tax year 2018, there are three different consent forms in the Intake Booklet, responses to which must be entered into TaxSlayer.
  - o **For MFJ returns, both the taxpayer and the spouse** must consent (sign) a given form for it to take effect.
    - This means that if only one of the two is present during the preparation of the tax return, a counselor must *see* the signed consent form, and enter that information into TaxSlayer based on seeing that form, when the taxpayer or spouse returns with the Intake Booklet.
  - o A two-sided sheet (English on one side, Spanish on the other), “Information Regarding Consent Forms and Questions” [Form D20453, 9/18] should be given to the taxpayer at the same time as the Intake Booklet
    - Ideally this information sheet is laminated, and when the taxpayer is finished with it, it is taken back
  - o A three page information sheet, “AARP Foundation Tax-Aide Intake Booklet – Tax Year 2018” [Revised October 11, 2018], is available for counselors, with more details about the consent forms.
- The three consent forms are:
  - o Consent to Disclose Tax Return Information to VITA/TCE Tax Preparation Sites (page 4) [**Consent 1**]

## E-File Section

- If consent is given, **Carryforward** information from the 2018 tax return will be available to *any* Tax-Aide or other TCE site, as well as *any* VITA site, when starting a 2019 tax return. The full 2018 tax return will remain accessible *only at the site where it was prepared*.
- If consent is *not* given, Carryforward information will be available only at the site where the 2018 tax return was prepared.
- If the taxpayer does *not* want to consent, write “**NO**” across the space where signatures would go.
- Consent to Disclose/Use Information to the VITA programs Relational Office (page 5) [**Consent 2**]
  - Despite the title, this consent allows a very limited number of AARP Foundation staff to create statistical reports from taxpayer information stored on TaxSlayer servers. The focus of the statistical reports is the diversity information on page 7 of the Intake Booklet.
  - If the taxpayer does not consent, **the tax return must be paper-filed**.
    - TaxSlayer automatically blocks electronic filing if consent is not given.
- Consent for AARP Foundation to use select tax return information to provide you with additional information about other free AARP Foundation programs or services (page 8) [**Consent 3**]
  - Note that the taxpayer will *not* be contacted about anything other than **free** AARP services if he/she consents.
- [New, 2018] If the taxpayer denies a request for a consent, TaxSlayer **no longer requires** the entering of a PIN and a date for that consent.

## Questions Section

- This section includes two types of questions:
  - Five *standard questions* specified by the IRS, as a sponsor of the Tax-Aide program. The first four questions may have been answered on page 3 of the Intake Booklet (Part VII, questions 5 through and 8); if not, ask the taxpayer. (Keep in mind that the taxpayer has the right to refuse to provide answers to these questions.) The fifth question is normally answered “No Virtual Used”, since drop-offs or some type of virtual site is very rare.
    - IRS questions do **not** require tax preparers to make a choice for each question; if the taxpayer does not provide answers for the first three questions, **those questions can be skipped**.
    - For the fourth question, “Was the taxpayer physically present during the entire return preparation and quality review process?”, answer “Yes” if only one of a married couple are present.
  - *Custom questions*, set up at the district or site level.
    - For the 2019 filing season, most of these questions are likely to be from the supplemental questionnaire created by the AARP Foundation, similar to what was done in the 2018 filing season. These questions are below the five standard IRS questions.
    - If the taxpayer answers the questions on that supplemental sheet, the answers are to be entered in this section.
    - The district or site which set up the questions makes the determination if these questions are “required” (the preparer *must* select an answer for each question), or if they are “not required” – they can be skipped if, for example, the taxpayer did not fill out the supplemental questionnaire and does not verbally provide that information.

## State ID (OPTIONAL) Section

- **Note for CA state returns:** This section is not required for CA returns and should be skipped.
  - **Warning:** If anything, including a blank space, is entered into one or more fields in this section, then TaxSlayer requires ALL data fields in that section to be completed. [If trying to remove all data, make sure that “Type” is set to something *other than* “Driver’s License” or “DMV/BMV State Id”.]

## SUBMISSION PAGE

- The final step in completing the E-file section is the **Submission** page.
  - **Note:** If you see a message at the top of the page, something like “This return cannot be e-filed”, that means that **you**, the preparer or quality reviewer (whoever is logged in), hasn’t been given the permission to **transmit** returns to the IRS. The return itself *can* be efiled, but that has to be done by someone else.
- The page has an option to print the return.
  - 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 “Is Complete” – that should not be done until *after* the quality review is complete
  - **Checking this box changes the status of the return to “Complete”. Depending on what the site administrator authorizes, a counselor may not be able to uncheck this box.**
    - *Even if changes are made to the return, this box will NOT uncheck itself.*
    - If this box is checked, the status of the return becomes “Complete”, and TaxSlayer adds it to the list of returns for which e-files can be transmitted. The only way to prevent that is to also mark the return as “Ready for Review”. A return marked as “Ready for Review” will have a status of “Review Pending”, whether the “Complete” box is checked or not.
- Select whatever return tags are appropriate
  - In particular, “Signature Needed” should be selected if this is a MFJ return with only one taxpayer present.
- *Optionally*, do a pre-quality review (see two sections below)
- The final actions of a preparer within TaxSlayer depend on whether your local site uses the formal TaxSlayer review process or not.
  - *Formal software process:*
    - Clicking “Ready for Review” will change its status, as shown on the Office Client List page, to “Review Pending”, and put the return in the “Return Reviews” section of all counselors who have this functionality assigned to them.
    - Click “Save and Exit Return”
  - *Informal software process:*
    - Do not exit the return. Instead, do one of the following, depending on site procedures:
      - From the top of the page, open the PDF that has been set up for doing quality reviews
      - Click “Save and Return”, at the bottom of the page [new as of June 2018] to go back into the taxpayer’s return, to the **Summary/Print** page
    - Notify another counselor that the return is ready for a quality review. The other counselor will review the return while logged on as the original preparer.

## **FINAL STEPS IN TAX RETURN PREPARATION**

### **EXITING A RETURN BEFORE COMPLETION**

- If you 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 9) about the situation; if it involves needed (missing) documents, indicate which documents are needed
  - After exiting the return, set a **tag** (see page 9) 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
  - **Note:** *Until you are logged out or you open another return, the return you worked on is locked and cannot be opened by another user for 30 minutes.*

### **QUALITY REVIEW**

- The quality review process is described beginning on [page K-7 of Pub 4012](#) and in the second half of [Pub 5101, Intake/Interview & Quality Review Training](#)
- Every return prepared at a Tax-Aide site **must** be quality reviewed by another counselor.
  - If the return requires additional certification (for 2015 through 2018 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
  - Quality review of the information entered into TaxSlayer is best done on screen rather than from printouts
- In TaxSlayer, if using the **formal** software process for preparation and review, quality review starts from a separate section on the home page called “Review Returns”. TaxSlayer places returns in this section after the preparer marks “Ready for Review” on the **Submission** page of the return, and exits the return.
  - If you don’t see that section, then the security profile for your login doesn’t include the ability to *formally* review returns

## Final Steps in Tax Return Preparation

- (By contrast, the **informal** process involves the QR person continuing to work in the taxpayer return *while logged into that return as the preparer.*)
- 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:
  - *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, assuming that the preparer will complete the process with the taxpayer.
  - *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 one place (desk or table) to another.
    - This approach means the *reviewer* is the one who does the wrap-up with the taxpayer, not the preparer, even though the preparer spent more time with the tax return.
    - **Warning:** *After the preparer exits the return, he/she must either log out or open another return. Otherwise, the return the preparer worked on is locked for 30 minutes and cannot be opened by the reviewer.*
- The reviewer must examine the Intake Booklet 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:
  - (1) 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 using the items that appear in the left navigation bar when it is fully expanded vertically. For example, clicking on “Retirement Income” will take you immediately to where 1099-Rs have been entered in TaxSlayer.
    - For the Health Insurance section, go through the TaxSlayer sequence of pages
    - For the State section, the only way to get to the input pages is through the menu system (look for buttons labeled “Edit”)
  - (2) From the **Calculation Summary** page, compare information on various lines of 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.
  - (3) Review the PDF of the “Quality Review” print set for the tax return, comparing what is on the PDF to documents provided by the taxpayer.
    - That PDF includes forms like the W-2 as well as copies of federal schedules
    - A “Quality Review” print set is available on the final page of E-file section, **Submission**, and also from the Office Client List page.
- 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 last part of the quality review is to go through the pages in the E-File Section
  - 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.
  - If the local site has set up a custom question to record the quality reviewer, make sure that this is answered correctly.
  - On the final page of the E-file section, the **Submission** page:
    - Determine if the “Is Complete” box can be checked.
      - It can be checked if this is a paper return, including an amended return.
      - It can be checked if it is to be e-filed and all needed signatures can or will be obtained as soon as the return is printed. (For a MFJ return, if the taxpayer or spouse is not present, then *do not* check this box.
      - **Warning:** After a return has been marked as complete, it can be **unmarked** as complete only by preparers who have that authority. If the box was checked in error, then check “Ready for Review”

[or, if already checked, *leave it as such*] in order to prevent the review status from changing to “Complete”, which puts it in the queue to be transmitted to the IRS.

- If a second signature is needed, go to the bottom of the page, and make sure that a return tag has been selected which says (exact wording may vary) “Awaiting signature”
- If the site uses return tags to indicate who has done the quality review, then check the appropriate tag - for example, “PatS-reviewer”
- If the **formal** software review process is being used, then in the “Review/Retransmit Status” section, click “Approved”. That will change the status – if the “Is Complete” box is *not* checked – to “Review Approved”.
- Final steps:
  - Print the return for the taxpayer (alternatively, this could be done by the preparer)
    - For detailed information about printing a return, see Printing Returns, page [120](#)
    - If the return is going to be paper-filed, see also Printing, on page [122](#)
  - Click “Save and Exit the Return”
  - Enter reviewer initials on the preparer’s Activity Log

## **REVIEW RETURNS WITH THE TAXPAYER**

- Either the preparer or the reviewer must review the return with the taxpayer to the extent needed or requested to ensure taxpayer understanding.
  - 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
  - Decide which works best for you and the taxpayer
  - 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.
  - TaxSlayer has a “Prior Year Comparison” feature, which compares the current tax year return to *any* prior year tax return which has been done at the same site. This is a very limited comparison, of ten lines on the tax return, not a complete line-by-line match. It’s available from the **Calculation Summary** page (click Summary/Print on the left navigation bar), and in the “Helpful Tools” section of the pull-down menu under the taxpayer’s name (upper right of the screen).
- If the taxpayer has had a significant change in the amount owed or amount refunded between tax years 2017 and 2018, there are three potential sources of that change:
  - The taxpayer’s status or income or expenses changed significantly. This could include less obvious changes such as a dependent no longer be young enough to qualify for the Child Tax Credit.
    - If income significantly increased, the taxpayer might have gotten into the 22% marginal tax rate. [For 2018, for single and MFS returns, that rate starts at \$38,701; for HoH returns it starts at \$51,800; for MFJ returns it starts at \$77,400.]
  - Withholding changed. Even if the taxpayer didn’t take any specific action to change withholding, the *withholding tables for wage-earners changed in February 2018, resulting in less withholding for the rest of 2018 unless the taxpayer took action to increase withholding.*
  - Tax law changed for 2018.
    - The biggest change was the (roughly) doubling of the standard deduction, plus a doubling of the child tax credit, offset by the elimination of individual exemptions. Those with children who took the standard deduction should see a definite decrease in taxes; those who itemized and had no children almost certainly will not, and might instead see a significant increase in taxes.
      - The \$500 credit for other dependents approximately offsets the loss of individual exemptions for those in the two lowest tax brackets; it is significantly less beneficial for those in the 22% or higher marginal tax rates.
    - Tax rates changed: the 15% tax bracket became 12%; the 25% tax bracket became 22%
- While it is difficult to predict exactly when a taxpayer will receive a refund, during the 2018 filing season, the IRS said that it anticipated issuing more than nine out of 10 refunds in less than 21 days after the returns were e-filed; that didn’t include time in the mail, if the refund was not a direct deposit.

## **PRINTING RETURNS**

- For MFJ returns, the taxpayer copy of a return will be printed and given to the taxpayer or spouse when one is missing. The absent taxpayer or spouse must have the opportunity to review the printed return before signing the Form 8879s, as well as the consent forms in the Intake Booklet.
- 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.
- There are three places where a PDF can be created:
  - Within the return, on the Submission Page of the E-file section
    - *This is the best place to print a return, because of the full choice of print sets*
  - 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)
  - Within the return, the “View/Print Return” option on upper right of the **Calculation Summary** page
    - You can get to the same option from the Taxpayer name pull-down menu (Helpful Tools > Print or View Your Return)
    - What is produced is the “2018 Taxpayer Copy Print” set (formerly “Master Print”), which has a number of pages normally not given to a taxpayer.
- No matter which PDF is created, it 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.
  - **Warning:** Make sure that if a Schedule C was part of the return, that this printed, and not a Schedule C-EZ, or no Schedule C variant at all.
    - If a Schedule C-EZ appears, *force* the return to use Schedule C by putting \$1 in **both** lines 35 and 41 of Part III of Schedule C.
      - That’s done by selecting “Cost of Goods Sold”, and then putting “1” in both “Inventory at the beginning of the year” and “Inventory at the end of the year”
- In the resulting print dialog, either print the entire file (normal), or select specific pages to be printed (unusual)
  - 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 section [part of “Paper Returns”], below, on page **122**.
- **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 Schedules and Forms***

- If you need to print just one specific federal schedule or form, there are two options:
  - Print from a TaxSlayer menu; as of the 2018 filing season there are five schedules and ten forms that can be printed individually, provided that an entry has been made on that schedule or form
  - Create a PDF for the entire return, and then specify, in the printer dialog, that you want printed only the page which has the schedule or form that you are interested in.
    - If for some reason a specific form is part of the return, but is not included in the standard print set, try generating a “Master Print” PDF; the needed page may be part of that PDF.

### ***Printing Blank Forms***

- A blank tax form may be printed for 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, get them from the Internet:
  - Federal forms are at [irs.gov/forms-instructions](https://www.irs.gov/forms-instructions), which you can get to by clicking “Print Blank IRS Forms” from either the Main Menu page or an **Office Client List** page.
    - You can use the search box on that IRS page, but it’s better to click on “List All Current Forms and Instructions”, and use the search box on *that* page.
  - **Note for CA state returns:** CA forms are at [ftb.ca.gov/forms/search/index.aspx](https://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.
- **Note:** If you expect to see two Form 8879s (federal and state) when you print the return, but only see one, that’s probably because one of the two return types was erroneously set to *paper*. [A paper return doesn’t require a Form 8879.] If so, *correct the return* and print the missing Form 8879.

### ***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 return tag (see page 9) which says that a signature is needed to complete the return; you may also want to add a note.
  - Mark your Activity Log to show that a signature is required before the return is e-filed
- Print the return; then:
  - Have the taxpayer who is present sign Form 8879, IRS *e-file* Signature Authorization, and 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 that the signatures of both taxpayers are on both forms, but that we do not keep these forms. **Also remind the taxpayer that we will need to see the Intake Booklet again, to enter information as to which consent forms were signed.**
  - Per paragraph 4.3.3 of the 2018-2019 *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.”
    - **When both taxpayers are not present, for a MFJ return, the spouse who is present will receive the taxpayer copy of the tax returns that were prepared, along with the 8879s.**
    - **Make sure that the taxpayer knows that returns cannot be electronically filed until 8879s are completed and brought back to the site to confirm the 8879s were properly signed.**
  - 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.
  - 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
- If there is no surviving spouse, an executor or administrator will sign their own name with their title, typically “Executor”. Such authority is based on:
  - 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, Statement of Person Claiming Refund Due a Deceased Taxpayer, must be included if the return is filed by other than a surviving spouse **and** there is a refund due. (See the section Other Personal Information, which begins on page 20, for details.)

### ***Power of Attorney (POA)***

- If an agent is signing the return for a taxpayer, a Power of Attorney (POA) is required; this may be a Form 2848, Power of Attorney and Declaration of Representative, or in another format
  - **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 9) 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.
- The taxpayer should retain a copy of the POA with the tax return, in case the IRS asks for such documentation
- **Note for CA state returns:** Effective January 2, 2018, the FTB will start using new Power of Attorney and Tax Information Authorization forms. See <https://www.ftb.ca.gov/Archive/Professionals/Taxnews/Editions/2017/December.shtml> (“MyFTB Corner” section) for details.

## 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 Tax Preparation and E-File Information Section
  - 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-2 of Pub 4012](#), “Identity Theft Job Aid for Volunteers”.
  - o **Note for CA state returns:** If a Form 14039 has been prepared for the IRS, that form can also be submitted with the paper CA 540. If only the CA return has been affected by identity theft, then [CA Form 3552, Identity Theft Affidavit](#), available online, should be prepared, to be filed with the paper CA return.

### *Printing*

- General instructions for printing are on page [120](#)
- **Warning: Most print sets, including the one given to taxpayers who e-file, have “stacked” federal schedules - two of the schedules are on the same page, if the return contains two or more schedules. Such “stacked” schedules cannot be mailed to the IRS.**
- Print two copies of the PDF, one to be mailed, one for the taxpayer.
  - o As noted above, this may require using two different print sets.
- **Warning:** If the taxpayer has asked for direct deposit of a refund, make sure that the bank information (routing number and account number) has not be X-ed out on Form 1040. If they have been, then it is recommended that the taxpayer attach a check to the paper return, marked “VOID – bank information for direct deposit”, with the routing number and account number circled prominently.
- **Note for CA state returns:** 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. This probably requires printing selected pages from a PDF.

### *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-10 of Pub 4012](#), “Return Signature”.
- Federal – collate according to Attachment Sequence No., at the top right of each supporting form for 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* (as noted above, 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)
- Attach to the first page of 1040 and 540 returns:



- o Form W-2s (Fed – paper Form W-2s; CA – **use machine-readable pages printed by TaxSlayer, if in the print set, instead of attaching paper Form W-2s**)
- 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 form, the return is mailed to the ITIN Operation unit of the IRS; that address is in 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
  - o 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:
  - o If mailing, to the following address, and not to any other IRS office:  
IRS, ITIN Operation  
PO Box 149342  
Austin, TX 78714-9342
  - o If in person, at a Taxpayer Assistance Center where in-person document review is provided
    - These locations are listed at [irs.gov/help/tac-locations-where-in-person-document-verification-is-provided](https://www.irs.gov/help/tac-locations-where-in-person-document-verification-is-provided); note that they operate by appointment only.
- For the state return, which also must be paper-filed, the taxpayer has two choices:
  - o If the taxpayer does not have tax due to the state, they can hold the state return until they receive their official ITIN letters, 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.
  - o 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**

- It is strongly recommended that only the ERO at the site should be submitting e-files to the IRS and FTB.
  - o NotesE-File Page **UNABLE TO PAY/LATE FILING**
- Returns prepared by Tax-Aide during the 2019 filing season will always be filed by April 15, 2019, except for returns prepared by authorized sites that are open year-round
  - o It is important for taxpayers to understand that *whether or not they can pay in full, it is **always** better for them to file their taxes on time.* Timely filing eliminates late-filing penalties, and any amount that can be paid on time reduces IRS interest charges.

## Unable to Pay/Late Filing

- TaxSlayer automatically prints a payment voucher for the full payment due. The taxpayer can always change the dollar amount on the voucher (best is to line through the original amount, and write in the amount that is actually being mailed in)
  - If they cannot pay in full by April 15, inform the taxpayer of the payment options **below**.
- **Note for CA state returns:** Because CA taxes due are usually much smaller than federal taxes due, the taxpayer may want to pay CA in full, if 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](#)
- [Pages K-14 and K-15 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 15), the first step is for the taxpayer to pay as much as possible by April 15.
- 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/payments/online-payment-agreement-application](https://irs.gov/payments/online-payment-agreement-application) and request a **Short-term Payment Agreement** of 30, 60, 90, or 120 days
  - This agreement does not have fees; by contrast, 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
- If this option is feasible, discuss with the taxpayer how payments will be made
  - Print as many payment voucher forms (bottom of page 1 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](https://irs.gov/Payments); this also discusses how to pay by cash
- The taxpayer will owe interest at the federal rate, which changes quarterly. (The rate was 5 percent annually as the calendar quarter ending December 31, 2018.)

### *Pay by Credit Card*

- At [irs.gov/Payments](https://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. The taxpayer may arrange to have the funds withdrawn directly from a bank account, on a recurring basis, or may pay in any of the ways described at [irs.gov/Payments](https://irs.gov/Payments), including by cash.
  - 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:
  - \$31 if the agreement is done online, with payments to be made by direct debit from a bank account
  - \$107 if the agreement is done by phone or in person, but 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 H-30 of Pub 4012](#) for poverty line amounts for various-sized households)
- To request an installment agreement, the taxpayer has several choices:
  - The lowest-cost way is to do the agreement online, at at [irs.gov/payments/online-payment-agreement-application](https://irs.gov/payments/online-payment-agreement-application), regardless of how payments will be made

- o Form 9465 can be submitted with the tax return: go to the **Form 9465 - Installment Agreement Request** page [Federal Section > Miscellaneous Forms > Installment Agreement]
  - 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 if Form 9465 is filed as part of the tax return
- o By mailing a **Form 9465** to the IRS (to be sent to the IRS address where paper returns are sent; see page iv)
- o By phone (1-800-829-1040) or in person at an IRS office (call 844-545-5640 to schedule an appointment [best to call *after* the tax-filing deadline in April])
- While on an installment agreement, the taxpayer may amend the agreement, including adding additional years, if necessary, on irs.gov; the fee for restructuring is \$89.

## **UNABLE TO PAY - CALIFORNIA**

- The range of options for taxpayer who owe money is shown at [ftb.ca.gov](http://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:
  - o Online, at [ftb.ca.gov/online/eia/index.asp](http://ftb.ca.gov/online/eia/index.asp)
  - o By calling 1-800-689-4776
  - o By mailing **FTB Form 3567**, separately from the CA tax return
    - The form is not available in TaxSlayer.

## **LATE FILING**

- If no tax is due, or if the taxpayer is due a refund, there is no penalty for failure to file a tax return.
  - o However, if a taxpayer with a filing requirement fails to file, the IRS may hold up refunds from following years until the taxpayer is current with their tax filings.

### ***Penalties***

- The **federal** penalties and interest charges if taxes are owed are:
  - o **Late filing penalty:** 5% per month of the unpaid tax, up to a maximum penalty of 25% of the amount due.
    - There is no late filing penalty if the return is filed with 60 days of the due date.
    - If the return is filed more than 60 days late, the minimum penalty is \$210, 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.
  - o **Penalty for late payment** (“failure to pay”): The penalty is generally 0.5 percent per month of the taxpayer’s unpaid taxes. It can build up to as much as 25 percent of their unpaid taxes
    - **Note:** If both the late filing and late payment penalties apply, the maximum amount charged for the two penalties is 5 percent per month.
  - o **Interest** on the amount past due; this rate can vary by quarter:
    - For the quarter ending December 31, 2018, the interest rate was 5% per year, compounded daily
- Penalties for failure to file on time, and failure to pay, can be waived under certain circumstances, under the IRS First Time Penalty Abatement program. For details, see the Prior Year Returns section on page **126**.
- **Note for CA state returns:** The **state** penalties and interest charges if taxes are owed are:
  - o **Late filing penalty:** The penalty is 5 percent of the unpaid tax due for every month that the return is late, up to a maximum penalty of 25 percent of the unpaid tax.
    - However, if the tax return is filed more than 60 days late, the **minimum** penalty for late filing is \$135 or 100 percent of the unpaid tax, whichever is less.
  - o **Underpayment penalty:** The penalty is 5 percent of the unpaid tax plus 1/2 of 1 percent each month, to a maximum of 25 percent of the total unpaid tax.
  - o **Interest** from the original due date of the return to the date that payment is received
    - The interest rate varies; it is compounded daily and the rate is adjusted every six months
    - Beginning January 1, 2019, the CA interest rate is 5%

### ***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 2015 return (due April 18, 2016) will be April 18, 2019.

## Other Returns and filings

- **Note for CA state returns:** 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 2014 return (due April 17, 2015) will be April 15, 2019.
  - **Note:** Only returns for three prior years are in-scope, or available in TaxSlayer, so Tax-Aide volunteers cannot prepare a CA return for 2014.

### ***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 AND FILINGS**

### **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. Taxpayers 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 today is February 5, 2019, then returns as far back as tax year 2015 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 via mail (see [www.irs.gov/individuals/get-transcript](http://www.irs.gov/individuals/get-transcript)) or in-person at an IRS Tax Assistance Center. (Call 844-545-5640 to make an appointment.)
  - The appropriate transcript to request is listed as **number 8** on [Form 4506-T, Request for Transcript of Tax Return](#). This type of transcript is **not** available through an online account with the IRS.
  - **Note for CA state returns:** IRS transcripts don't include CA-specific information, which is primarily state tax withholding. If there is a need for such information, the taxpayer can obtain it by establishing an online MyFTB account ([ftb.ca.gov/online/myacct/](http://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.
    - An alternative to requesting this information from the FTB is to just file a CA return and let the FTB computers automatically make the adjustment for CA taxes that were withheld. The FTB will then mail a letter to the taxpayer, explaining what corrections were made.
  - 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-5 of Pub 4012](#), "Prior Year Returns", for details.
- If multiple prior year returns are needed (for example, 2015 and 2016), do the *oldest* year first, so that data Carryforward can be used, sequentially, for the other years.
  - If you've completed a prior year, then try to start the next tax year, and get a message from TaxSlayer that the SSN is in use or that the SSN already exists, two possible workarounds to clear the error message are:
    - Log off TaxSlayer, close the browser, reopen the browser, and log back in
    - Submit (transmit) the e-file for the prior year.
- Federal forms and instructions for prior years can be viewed and downloaded from [irs.gov/forms-instructions](http://irs.gov/forms-instructions)
  - **Note for CA tax preparers:** - prior-year versions of this manual can be found at [aarpc2.org](http://aarpc2.org), under "Documents"
- To start a prior year return in TaxSlayer, use the "Change Tax Year" pull-down menu (upper right) to select the desired year, then click "Select", to the right of "Start New Tax Return"

- o The IRS allows registered preparers to electronically file tax returns for the current tax year and the two previous tax years, so 2016 and 2017 returns **can** be e-filed, but 2015 returns cannot.
- o 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.
- When doing a prior year return, always ask if the taxpayer filed a Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to delay tax filing for up to six months. If so, then ask the taxpayer if a payment was made when the Form 4868 was filed, and **if so, how much was paid.**
  - o If the taxpayer knows the amount, see the section Schedule 5, Line 71 - Amount Paid with Request for Extension to File, on page **98**
- If the taxpayer owes money, *and can pay the amount due*, he/she may be eligible for the **IRS First Time Penalty Abatement program**, which gives a waiver for penalties that would otherwise be assessed for failure to file and for failure to pay.
  - o Before assisting the taxpayer with such a waiver, consider whether these penalties are likely to be significant – see page **125**. For example, if the taxpayer owes \$50, and is filing 10 months late, the two penalties combined would be less than \$60.
  - o Requesting such a waiver should only be done when the taxpayer meets *all* of the following criteria:
    - For the three tax years prior to the tax year for which a waiver is being requested, the taxpayer either didn't have to file a return or did file a return and had no penalty assessed for that return.
    - The taxpayer is up-to-date on filing all tax returns, or – if this is a current year return being filed after April 15, 2019 – has filed an extension and is still within the extension period
    - The taxpayer has paid, or has arranged to pay (with a short-term payment agreement, as discussed on page **124**, or an installment agreement, as discussed on page **124**), the tax due on the return
      - If an installment agreement is in place, payments must be current
  - o The written request should include all relevant information in the request (taxpayer name, identification number, tax year), and should clearly state that the taxpayer meets the criteria for the First Time Penalty Abatement program. Your written statement should also include a detailed explanation of any reasonable cause for failing to pay or file, if there is such a cause; the IRS might decide that the waiver criteria are not met, but that there is still reasonable cause for waiving the penalties.
  - o The written request for a waiver should be mailed to the IRS service center where the taxpayer is required to file paper returns
    - If a paper return is being filed, the request can accompany that return, as long as payment in full – a check or direct debit information - also accompanies the paper return.
- **Note for CA state returns:** 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 (2018) and the three prior years may be amended by Tax-Aide counselors. Taxpayers needing to amend older returns should be referred to a paid preparer, keeping in mind that they can no longer get a tax refund if the tax return was due more than three years prior to the current date.**

- The **deadline for getting a refund** by filing an amended return is generally the **later** of (a) three years from the date the tax return was filed (if filed timely), or (b) two years after the date the taxpayer paid the tax on the originally-filed tax return.
- Per [Pub 1084, VITA/TCE Volunteer Site Coordinator Handbook](#), Tax-Aide sites may prepare an amended return for a taxpayer even if they did not prepare the original return.
  - o The original return *can* be out-of-scope as long as the amendment brings it back into scope.
- *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,

## Other Returns and filings

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 1040X is needed.
  - However, even if the federal adjustment proposed is correct and is acceptable to the taxpayer, a CA amended return may be necessary so that CA information agrees with the IRS-adjusted 1040 amounts
- Amended returns CANNOT be e-filed
- If a taxpayer is amending multiple years [this is very rare], each year's amended return should be mailed separately.
- **A taxpayer should 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.
    - The taxpayer *should* cash/deposit the refund check. (If the taxpayer expects to have to repay some or all of that refund, he/she shouldn't spend it, of course.)
  - 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 by the taxpayer* 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-5 of Pub 4012](#), "Prior Year Returns", for details.
- Taxpayers can track the status of their amended tax return three weeks after they file, by going to [irs.gov/filing/wheres-my-amended-return](https://irs.gov/filing/wheres-my-amended-return). The IRS tool can track the status of an amended return for the current year and up to three previous years.
- **Note for CA state returns:** When amending a federal return, it's best to start with the assumption that the related CA return also needs to be amended
  - Use the TaxSlayer refund monitor to determine if the CA refund amount changes as you modify the federal return. If not, then an amended CA return doesn't need to be prepared, printed, or mailed.

## Process

- [Pages M-1 through M-4 of Pub 4012](#) discuss the process for amending a previously filed tax return.
- **Note for CA state returns:** Beginning with the 2017 tax year, amending a CA return is a different process, because Form 540X has been discontinued for that tax year and future tax years. Instead, after making changes to the original return, to correct erroneous or missing information, or to reflect a change requested by the taxpayer:
  - At the top of Form 540, the box for "Amended" will be checked
  - CA Schedule X, California Explanation of Amended Return Changes, is prepared

## Step 1: 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*.
    - [new, 2018] If done at your site, you can generate a copy of the return *as accepted by the IRS and by CA*:
      - From the Client Search page, find the taxpayer's return [make sure you have the right year]
      - From the Tools drop-down list, select "Client Status"
      - In the section of the page showing transmissions, you'll see print icons on the far right for the federal and transmissions
  - If you have access to the original return, and the taxpayer does not have a printed copy of the return, then *print a copy*. (This copy isn't needed for filing an amended return, but is needed during the process of creating the amendment.)
- If you *do not have access* to the original return, then a new return must be created to match the original printed return
  - Make sure that you start the new return in the correct year, which *usually will not be the current year*.
    - From the Main Menu, use "Change Tax Year" (upper right) to select a prior year
  - Enter information from the printed original return into TaxSlayer

- 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
- Because the amended return will be paper-filed, the underlying detail entered into TaxSlayer is irrelevant as long as (a) the resulting, printed Form 1040 (two pages) is identical to the originally filed return, and (b) any schedules that have **changed** are correct at the detail level
  - See “Amending Returns – Original Return Not Created in TaxSlayer”, on [page M-4 of Pub 4012](#), for suggestions on consolidating information to minimize input into TaxSlayer.
- Regardless of whether the original return is available in TaxSlayer or is created anew, confirm that **all amounts** on Form 1040 and CA Form 540, in the PDF in TaxSlayer, **exactly match** the amounts on the **printed** (original) federal return (Form 1040) and California return (Form 540) before doing Step 2.

### Step 2: Create the Federal Amended Return

- From inside the return, click on the “201[X] Amended Return” link on the left navigation bar, which opens the menu page **Amended Tax Return - Form 1040X**.
- Click “Original Federal Return Information”.
  - If the original return was e-filed at your site, then TaxSlayer will automatically fill in the original amounts using the data transmitted to the IRS.
  - If the original return was not e-filed at your site, enter the dollar amounts from the taxpayer’s Form 1040 into TaxSlayer
  - **It is critical to enter** either the amount the taxpayer has paid (“Amount of tax paid with original return plus additional tax paid after it was filed”), or the amount refunded (“Overpayment, if any, as shown on original return or as previously adjusted by the IRS”), in order for the figures at the bottom of page 1 of Form 1040X are correct.
  - When all the required original information has been entered, click “Continue”

### Step 3: Make Changes to the Original Return

- Make all necessary changes to the return, based on the new information from the taxpayer.
  - TaxSlayer has no way to revert changes that you make, should you want to go back to the original version of the return. As you make changes, the only place where the information on the original (filed) tax return is available is the *printed copy* that the taxpayer has.
    - TaxSlayer has said that they will provide the ability to generate a PDF of the e-filed original return, if done at the site doing the amended return, but it is not clear how to access such a PDF.

### Step 4: Explain Changes

- Click “Explain Changes”, enter text, *copy the text if you want to use it for the amended state return*, and click “Continue”
  - The explanation entered in TaxSlayer will appear on page 2 of Form 1040X. The explanation should contain line numbers and/or schedule information; for example: “1040 Line 1: A missing W-2 was added to the return” or “1040 Schedule A, line 1: Amount of medical and dental expenses was increased”, or “1040 Line 11 of Schedule 1 – alimony amount was changed from \$10,000 to \$12,000.” **Note for CA state returns:** TaxSlayer uses the *same* explanation for an amended state return, so if you are amending both returns, make sure that the explanation will make sense to the FTB as well as the IRS. Note that the number of characters that can be entered is limited to 100

### NEEDED

- **Note for CA state returns:** 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 the refund amount was originally zero. If the state refund amount, or amount owed, hasn’t change [compare the refund monitor amount to the amount on the original state return], then it isn’t necessary to prepare or file a state amended return.
- If you do need to amend the CA return, and you’re not at the **Amended Tax Return - Form 1040X** page, click on “201\_ Amended Return” in the left navigation bar.
- Click on “Amend State Return(s)”. What you do next depends on the year being modified:
  - For 2017 and later years:
    - Click on “Amend State”. **Do not click on the edit icon.**
    - From the main state menu, use the regular menu items, such as “Credits”, to edit any state-specific information *that has changed*. (This will be uncommon; normally all changes will have already been made on pages of the federal return.)

## Other Returns and filings

- After make any needed changes to state-specific information, scroll down on the main menu of the State Section to the line “Amended Return”. Click on “Begin”.
  - *If you clicked on the edit icon, rather than “Edit Amended”, you won’t see the “Amended Return” item at the bottom of the menu. Click “Exit California Return” to get back to the page where you can click “Amend State”*
- On the first page, select “Yes” from the pull-down menu and click “Begin”
- Complete all relevant information
- For 2016 and earlier years:
  - Click on “Amend State”
    - **Warning: Clicking on the text and clicking on the edit icon lead to two different places.** Clicking on the edit icon leads to the *standard menu for the CA return, not the specialized menus*. (You may want to go there in order to make changes, but normally all changes have been made on federal pages.)
  - On the next page, on the “Amended Return” line, click on “Begin”. Then, on the next page, select “Yes”, then click “Begin”
  - **Go into each of the five pages** (General Questions through Explanation of Changes) and fill out each as necessary
    - Unlike the federal return, information from an e-filed CA return *will not be used to automatically complete these five pages*.
    - “Explanation of Changes” does *not* allow text to be entered – as mentioned above, TaxSlayer provides only a single place to enter an explanation, which is used for *both* the federal and state amended returns.

### **Step 6: Print and Assemble the Amended Return(s)**

- In addition to printing Forms 1040X and 540X [Schedule X starting with tax year 2017], you should print any form or schedule that has been changed from the return as originally filed, to be attached to the amended return
  - **For example**, if the return is being amended because the taxpayer is reporting additional expenses for their business:
    - Federal: print, to be mailed, the 1040X, Schedule C, and Schedule SE; if credits such as EIC were also affected, then the related forms should also be printed
    - CA for 2016 and earlier: 540, 540X, supporting pages on the CA return that have changed, and federal pages that changed
    - CA for 2017 and later: amended 540, CA Schedule X, federal Schedule C, federal schedule SE
  - Print an extra copy of the Form 1040 (amended version) for the CA return **only if** the Form 540 says, as the top, “ATTACH FEDERAL RETURN”, **and there is a (check)mark to the right of those words**
- For information on generating a PDF to be printed, see Printing Returns, on page [120](#), and see also the additional information for printing paper returns, on page [122](#).
- 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 1040X 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)
  - Do not send the IRS the revised Form 1040 (the taxpayer does get a copy of this, of course), even if a change appears *only* on Form 1040, because the explanation on the 1040X should specify exactly which lines were changed, and, if only lines on the 1040 were changed, the explanation should include the dollar amounts changed from and to.
  - Do not include a 1040-V, payment voucher. If TaxSlayer includes the payment voucher in the PDF, either don’t print it, or – if printed – shred it or give it to the taxpayer to be shredded [clearly marked, or torn, to indicate it is not to be used]



- 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.
- **Note for CA state returns:** The process is different for 2017 and later years than for 2016 and prior years.
  - o **For 2016 and prior years:** the taxpayer must **sign** and mail one copy of the 540X with supporting documents to the FTB. 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 **For 2017 and later years:** The taxpayer must **sign** and mail one copy of the amended 540 with supporting documents to the FTB. Mark the 540, at the top right [until TaxSlayer adds this wording] “AMENDED return.” The supporting documents are:
    - CA Schedule X, California Explanation of Amended Return Changes
    - Documents supporting the changes discussed on Schedule X, such as corrected W-2, 1099s, and K-1s
    - Any federal (1040) schedules that have changed
    - The (revised) Form 1040 **if** page 1 of the Form 540 says (top right) “ATTACH FEDERAL RETURN” **and has a mark to the right of this wording, to indicate that it is applicable.**
  - 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.
- The taxpayer should be given full set of pages of the amended returns; mark these at the top “**Amended – Copy**” so that they cannot be confused with the forms submitted with the original return

### ***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 a federal amended return by calling 866-464-2050, or online at [irs.gov/filing/wheres-my-amended-return](https://irs.gov/filing/wheres-my-amended-return)

### **CLAIMS FOR REFUND: COMBAT-INJURED VETERANS TAX FAIRNESS ACT OF 2016**

- For veterans who overpaid their federal income tax because their income incorrectly included a lump sum disability payment, Public Law 114-292 allows additional time for filing a federal claim for refund or credit to recover the overpayment. In July 2018, the Department of Defense and the IRS began notifying approximately 130,000 affected taxpayers by mail that they could file a claim for refund or credit.
- The IRS issued ruling [IR-2018-148](#), which provided standard refund amounts (the simplified method) for eligible veterans to request a refund or credit. This method is based on the year they received their disability severance pay. **Only the simplified method is in-scope for Tax-Aide.** The simplified method amounts are:
  - o \$1,750 for tax years 1991 to 2005
  - o \$2,400 for tax years 2006 to 2010
  - o \$3,200 for tax years 2011 to 2016
- IRS answers about less common situations are at <https://www.irs.gov/individuals/military/filing-amended-returns-for-combat-injured-disabled-veterans>
- On the Volunteer Portal, in Libraries, a search on “Veteran” will include, in the results, “Refund of Previously Taxed Veterans Disability Payments”. This is a zip file which, when opened, consists of two documents:
  - o A two page PDF with instructions on how to file for a refund or credit, dated August 2018
  - o A 1040X with standard, required wording, plus shaded boxes indicating what needs to be filled out to complete the return. *This can be printed and used as the IRS filing form.*
  - o **Note:** A site might want to print the instructions, plus several copies of the 1040X, in advance.
    - Alternatively, *particularly if the site lacks the ability to make photocopies*, counselors might want to use the fillable 1040X on the IRS website, at <https://www.irs.gov/pub/irs-pdf/f1040x.pdf>, using the Portal’s 1040X as a guide.
- **Note for CA state returns:** Taxpayers may also claim a refund on the related CA return, assuming that they did not have a zero CA tax liability for that year. If the normal statute of limitations – four years after the filing

## Other Returns and filings

deadline for the tax year – has closed, a taxpayer can still file a claim with the FTB within two years after the claim is allowed by the IRS (the date the refund or credit is issued by the IRS), regardless of whether the taxpayer used the simplified amount.

- o The process for filing a claim is to mail a letter to the FTB [use the address for amended returns claiming a refund] that states the grounds of the claim, which in this case is that the taxpayer improperly included disability severance pay in income. The letter must be signed by the taxpayer, and must include, as attachments:
  - A copy of the letter they received from the Defense Finance and Accounting Service (DFAS) or the Internal Revenue Service, stating their entitlement to file a claim with the IRS
  - A copy of the IRS Form 1040X that was filed to make the claim
  - Substantiation that the IRS allowed the refund, such as a determination letter or documentation of the refund that was issued
  - More information is available in the FTB's [December 2018 TaxNews](#) (click on “Claims for Refund”)

## REQUEST FOR EXTENSION OF TIME TO FILE

- The key point that the taxpayer must understand is that any tax liability (which will have to be estimated) must be paid to the IRS and/or CA by April 15, otherwise interest and/or a penalty will accrue. . Filing an extension does not avoid penalties for underpayment of taxes.
  - 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.
- An automatic six-month extension of time to file a federal return is available for most taxpayers. There five different ways do do this.
  - o By making an online payment, and selecting “Extension” and/or “Form 4868” as the reason for the payment, or where the payment is to be applied. There are two online payment options:
    - Payment from a bank account (EFT), at [irs.gov/payments/direct-pay](https://irs.gov/payments/direct-pay)
    - Payment by a checking or debit card, at [irs.gov/payments/pay-taxes-by-credit-or-debit-card](https://irs.gov/payments/pay-taxes-by-credit-or-debit-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
  - o Filing Form 4868 by phone (888-972-9829, 888-729-1040, or 888-872-9829), which **requires** making a payment by credit card or other electronic method
  - o On IRS.gov, using Free File software, *regardless of income*
  - o By **printing** and mailing [Form 4868](#), with a check
  - o Through TaxSlayer, *with approval of the LC*
    - Form 4868 should be e-filed only if the taxpayer *is expected to come back to have their full tax return filed by Tax-Aide.*
      - If the taxpayer won't be back to do the full return, then it is much faster to help the taxpayer use the direct payment option at [irs.gov](https://irs.gov) (see above), if wanting to pay by direct debit, or to use a paper Form 4868, if paying by check.
- To prepare a Form 4868 using TaxSlayer:
  - 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 15, 2019, 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]
  - o Fill in the requested dollar amounts:
    - “Tax Liability” is an estimate of the amount that will be on Line 15, Total Tax, of Form 1040, when filed. (Use the prior year's tax return, if available, as a starting point – for tax years 2017 and earlier, this is Line 63 on Form 1040.)
    - “Tax Payments” is an estimate of the amount that will be on Line 78 of Form 1040, when filed, *not including* the amount of Line 71 of Schedule 5 (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 15, 2019)
- 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 check. [If paying by credit or debit card, From 4868 *should not be prepared through TaxSlayer, as discussed above.*]
  - Click “Continue”
- o **If the taxpayer is paying by direct debit**, the request for extension should be e-filed. (If paying by check, *do not e-file.*)
  - Go to the E-file section
  - The **Application for Extension Found** page will appear. Click “File Extension”
  - The **Submit Extension** page will appear. Click “I Understand” and then “Continue”
  - On the **Review** page, enter any five-digit number for the taxpayer (and, if MFJ, do similar for the spouse), then click “Continue”
  - 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 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.
  - **Do not** e-file if the taxpayer is going to pay by check.
- o Printing any pages of the return for the taxpayer, other than the Form 4868 page, assuming that information from tax documents has been entered into TaxSlayer (in order to make an informed estimate of the amount owed), 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
  - 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
- **IMPORTANT:** Regardless of how the request for an extension is made, inform the taxpayer that their federal and state tax returns must be complete and filed by October 15 to avoid penalties for late filing. If there are any Tax-Aide sites in your district, or a nearby district, that will be operating after April 15, 2019, or any VITA sites, provide that information to the taxpayer.
- **Note for CA state returns:** 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 the taxpayer does not expect to owe any money when the CA return is filed.
  - o If a payment will be mailed to the FTB, [CA Form 3519](#) is the voucher that should accompany the payment.
  - o Extension payments can also be made online: go to [ftb.ca.gov](#), and look for payment options (“Web pay” is a withdrawal from a checking or savings account; the other option is to pay by credit card, with a 2.3% service fee.)

## **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. That includes individuals who do not have Social Security numbers.
- 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.
- *Taxpayers must file a request to be issued an ITIN; ITINs are not automatically issued.*
- 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)
- Having an ITIN does NOT:
  - o Authorize work in the U.S., or establish immigration status
  - o Create eligibility for Social Security benefits OR the Earned Income Tax Credit or (for a dependent) the Child Tax Credit (as of tax year 2018)
  - o Provide valid identification outside the tax system

## Other Returns and filings

- More information on ITINs can be found at [irs.gov/individuals/individual-taxpayer-identification-number](https://irs.gov/individuals/individual-taxpayer-identification-number), in Chapter 1, "Filing Information", of [Pub 17](#), and in [Pub 1915, Understanding Your IRS Individual Taxpayer Identification Number](#)

### ***Expiring ITINs***

- ITINs with middle digits of **78** and **79** (for example, 9NN-78-NNNN) *expired* as of December 31, 2016. Those with middle digits of **70, 71, 72, or 80** *will expire* as of December 31, 2017. So do ITINs which were not used for a tax return filed during the period January 1, 2015, through December 31, 2017.
- If the taxpayer has such an ITIN, the IRS should have sent the taxpayer [Letter 5821](#). **It is quite possible that an expired ITIN has been renewed since January 1, 2017**; that the ITIN is on the list above does *not* mean that it is *still* expired.
- 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 can be submitted separately. Both options are discussed below.

### ***When the Taxpayer Obtains a Valid SSN and 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-5 of Pub 4012](#), "Prior Year Returns", for details.

### ***When the Taxpayer is Applying for an ITIN***

- 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 filing season.
- 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), on page [13](#); Spouse Social Security Number, on page [19](#); and Dependents and Qualifying Children, on page [21](#).
  - 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 [123](#).
- 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/international-taxpayers/acceptance-agent-program> [Some of these are free; some charge a fee.]

## **END-OF-SHIFT**

### ***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 taxpayers in order to determine the sequence of service, and to track counseling services provided
  - Activity Reporting log (Site Activity Log, Form D19597): 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, which LCs provide in summary form to their DC at specific intervals. (Some of this information may be collected by the ERO and given to the LC.)
  - 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 taxpayer where no return was prepared)

### ***Completed Logs and Sign-in Sheets***

- Preparers should give their completed Site Logs (see next section) to their ERO.
  - Before turning in the log, go to the **Office Client List** (click on "Client Search") in TaxSlayer to make sure that all returns that you worked on were correctly recorded on the log.
    - In particular, for any of your returns that on on your site log, but were completed, the information in the Comments column section of the site log **MUST** be consistent with the Return Stage for that return.
    - **Note:** How to see the returns that you have worked on during the day depends on whether your site has started 1,000 or more returns for that tax year, and whether you have the authority to see returns other than your own.
      - If both are true, then you can use the "Search By" box to search for your name, changing the next box to "Preparer – First or Last", and clicking "Search", to see only your returns.
      - If your site has started less than 1,000 returns, and you can see returns other than your own, then just use the "Search Client List" box to search for your name. [If your site doesn't move successfully transmitted returns to an "archive" preparer name, then click "Do not show Accepted Returns".]
  - If the site has each counselor track Q&As on their own log, make sure that you have recorded the number of taxpayers for whom you answered tax questions, where the taxpayers were not getting their return prepared by your site
- Some sites track information centrally and want preparers to help with that tracking. If so:
  - 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)
  - Record, on the site sign-in sheet, the number of tax questions that you answered that did not involve a taxpayer whose return was being prepared by your site

### ***Shutdown Procedures for IRS and AARP Foundation Computers***

- 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.**

- Shut down the computer, starting from the Windows button on the bottom left of the screen.
- Wait until the computer screen turns completely black and the power switch goes dark before pulling out the power plug and closing the lid

## End-of-Shift

- 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)

# 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
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 efilings 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)
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