

Incomes, Adjustments & Tax Credits using TaxWise

Tax Items in Alphabetic Order	TaxWise Entry: ">" means "Link To"	Comments
Bailey Settlement & Related Exclusions for Pension Income in NC	Line 16a > 1099-R Boxes to the left of Boxes 10 & 13: * Pension qualifies for Bailey: Box 2. * Public pension that is non-Bailey: Box 1. * Private pension: No box checked. (* Box 3 not used for NC pensions.)	* Bailey: Vested as of August 12, 1989. Includes NC state or local pensions, or Federal pensions if also vested. * Non-Bailey public pension: All other NC, Federal (civil or military) or other state or local pensions. * Private pension: from any corporation or private institution.
Car Expense for Business Use	Line 12 > Schedule C-EZ Part III, then add the car expense to the Scratch Pad amount of allowed expense. containing all expenses.	* Changing "another vehicle for personal use" from <u>Yes</u> to <u>No</u> does not change amount of allowed expense. * Can't include commuting miles as a business expense. * If you have no regular work place, you can only claim travel between one temporary work place and another. * Only 1 C-EZ per taxpayer.
Cash for Clunkers	N/A	* This is not an Income Tax issue. This program is handled through the U.S. Department of Transportation, National Highway Traffic Safety Administration. For more information on "Cash for Clunkers" go to www.cars.gov .
Child Tax Credit & Additional Child Tax Credit	No boxes to check, no data to enter in TaxWise.	* Calculated automatically. * Up to \$1000 per qualifying child. * Additional CTC is a refundable credit.
Day Care & Dependent Care Tax Credit	Line 48 > Form 2441 for entering child & dependent care expenses.	* Claim max of \$3,000 for one dependent or \$6,000 for two or more. * Must have provider's tax ID to e-file.
Earned Income Credit	Main Info Sheet Line 6c > Check EIC box.	* Calculated automatically.

- * Based on earned income, number of dependents, no ITINs.
- * Reduced if client received Advanced EIC payments through employer.

Economic Recovery Payment from Social Security, Railroad Retirement, or Veterans Administration pension plans

Line 63 > Schedule M Lines 10, etc.

- * 1099-SSA will not indicate whether these \$250 (or \$500) payments were received.
- * We may have a SSA web-site for checking client's payments.
- * These payments reduce the Making Work Pay refundable credit.

Education Adjustment or (1 of several possible) Credits

- * See Jim Brooking's 2-page handout.
- * NC will allow you to claim the up to \$4000 of education expenses if you claim one of the credits, but not if you claim education expenses as an adjustment.

Elderly or Disabled Credit Line 49 > Schedule R

Energy-Efficient Home Items - Nonbusiness Energy Property Credit

Line 52 > Form 5695 Part I

- * Limit is \$1,500.
- * Must own your home
- * Qualified energy efficiency improvements:
 - Insulation materials
 - Windows & doors
 - Efficient buildings
- * Efficient natural gas/propane/oil furnaces & water heaters.

Energy-Efficient Home Items - Residential Energy Efficient Property Credit

Line 52 > Form 5695 Part II

- * Beyond VITA program scope. See a professional.
- * Covers
 - Qualified solar water heater
 - Wind energy property
 - Geothermal heat pump property costs

Estimated Tax Payments & Refunds Applied to Next Tax Year

Line 62 > F/S Tax Paid worksheet

- * Don't forget to enter State
 - Withholding
 - Estimated payments
 - Estimated payments for the last Tax Year
- that can be deducted in the current Tax Year

First-Time Homebuyer Credit	Line 67 > Form 5405	<ul style="list-style-type: none"> * Max of \$8,000; \$4,000 for MFS or 10% of purchase price. * Phase-out begins at \$150K for MFJ. * Recent revision allows some 2010 buyers to claim credit for TY 2009.
Foreign Tax Credit	Line 47. Link to Form 1116 if required.	
Home Foreclosure & Cancellation/Reduction of the Home's Mortgage Debt	<p>Form 1099-A and Form 1099-C report the fair market value of the house and amount of the mortgage loan reduction or elimination.</p> <p>Report the foreclosure sale of the home on <u>Cap Gn Wkt</u> worksheet.</p> <p>Report the amount of the cancelled loan amount and the excluded amount on Form 982 (add form 982).</p>	<ul style="list-style-type: none"> * A foreclosure sale can create a capital gain or a loss. A loss on the sale of a home is not reported and cannot be claimed. Even if a gain is made on the foreclosure sale, a loan amount can be cancelled or reduced. * Generally, the cancelled/reduced portion of a debt is generally included in reportable income. * The Mortgage Forgiveness Debt Relief Act of 2007 lets you exclude certain debt forgiven or canceled on your primary residence. * This amount may require adjusting tax attributes (credits, losses, cost basis) for the home, using info on Form 1099-C. * If the home was foreclosed or abandoned, Form 1099-A is issued, creating a transaction on Schedule D. * If the foreclosure and the loan cancellation happen in the same year, the lender has the option of filing Form 1099-C only, by reporting additional information on the 1099-C. * Use Form 982 to indicate that the income from the debt cancellation can be excluded using the Section 121 Exclusion (of gain on the sale of a home).
K-1s: VITA only handles these distributions from Estates & Trusts (Form 1041), Partnerships (Form 1065) and S-Corporations (Form 1120S):	<p>To process the client's K-1, add to TaxWise & fill in the appropriate worksheet:</p> <p>* For a K-1 (Form 1041): K1 E/T.</p>	<ul style="list-style-type: none"> * Interview Sheet does not include a question for the K-1, Estates & Trusts (Form 1041), Partnerships (Form 1065) and S-Corporations (Form 1120S) so ask about these. * For the types of income from K-1s that are within VITA's scope, no entries are

* Interest & Dividends – which wind up on Schedule B.
 * Net Short-term & Long-term gains & losses for Schedule D.
 * Tax-exempt interest for Form 1040 Line 8b.

* For K-1 (Form 1065 & Form 1120S):
 K1 P/S.
 TaxWise adds the amounts from the K-1 to the appropriate lines on Form 1040 pg 1, Schedule B & Schedule D.

made on Schedule E, so you can simply add the appropriate K-1 worksheet without adding a Schedule E.
 * Also, TaxWise does not enter anything on Form 1040 Line 21 from these worksheets, although the TaxWise info on page 2-2 of the Resource Guide suggests that it will.

Making Work Pay Credit & Gov't Retiree Refundable Credits

Line 63 > Schedule M

* Max Making Work Pay credit is \$800 for MFJ (\$400 for single) if Earned Income is over \$12,903.
 * MWP credit is reduced if you (and/or your spouse) received an economic recovery payment(s) from Social Security (retirement or SSI), Railroad retirement, or Veterans disability compensation or pension benefits.
 * If you received SS in Nov or Dec, 2008 or Jan 2009, you may have received an economic recovery payment. Enter this \$250 or \$500 on line 10 of Schedule M.
 * You can take the Government Retiree Credit if you receive a pension from a Fed/State/Local gov't job that does not contribute to SS.
 * Even if you are over the max earned income & don't qualify for a MWP credit, you may be able to take the gov't retiree credit.

Mutual Fund Dividends

Line 9 > Line 1b on Sched B Dividend Statement > Interest Stmt

* Mutual Funds issue dividends, not interest.
 * Credit Union dividends are actually interest.

New Motor Vehicle Purchase - State & Local Sales Tax & Excise Tax Credit – whether or not you itemize deductions

Line 40b > Sched A Line 5b > Sales Tax Worksheet Line 8.

* Do not use Sched A Pg 2 vehicle worksheet.
 * You may be able to include some or all of the sales tax and excise tax you paid when purchasing a new vehicle.
 * TaxWise will decide how to use this sales tax best. For example, it will decide to use this car sales tax but claim state income tax as the better deduction, use the overall

sales deduction with the car tax included, or not itemize at all but claim the car sales tax on Schedule L.

* Car must be original use by the taxpayer.

* Bought after 2/16/2009 & before 1/1/2010.

* Sched L completed automatically without opening it.

Real-estate Tax Credit for those that Don't Itemize (taking Standard Deduction)	Line 40 > Sched A Line 6 Real estate tax on your principle residence > Adds real estate tax to Line 7 of Schedule L (Standard Deductions for Certain Filers) & adds checkmark to Line 40 on 1040 page 2.	* Max credit is \$1,000 MFJ, \$500 if single. * This credit increases the standard deduction. * Schedule L documents all the credits added to the Standard deduction.
Sales Tax Credit	Line 40b > Sched A Line 5b > Sales Tax Worksheet	* We will set up "blended" default State and Local amounts. * On Worksheet Line 2, use Table A for NC local sales tax no matter where client lives in NC. * On Worksheet use Line 3 and enter the blended local rate of 2.375%.
Self-Employment Tax and Adjustment	This tax appears on Line 56 (Other Taxes) - from Schedule SE TP - when you complete Schedule C-EZ.	* One half of the SE Tax is deducted on Line 27 as an adjustment.
State Income Tax payments	Line 62 > Fed/State Est. Payment Worksheet	* For TY 2008 payments made in 2009, add it to the worksheet so you get it added to state income tax payments.
Student Loan Interest Adjustment Deduction	Line 33 > 1040 Wkt2.	* \$2,500 limit for this deduction.
Tuition & Fees Income Adjustment (Deduction)	Line 34 > 1040 Wkt 2 Note: Complete lines 34 and 49, and test - individually - the	* Max adjustment is \$4,000 if AGI does not exceed \$65,000, single (\$130,000 married filing jointly). * Can claim this deduction for a dependent if TP has claimed the dependent.
Note: <u>Both</u> this AGI deduction and tax credit		

(below) should be tried for deduction and credit's Federal and State tax effect on the refund by purposes. overriding each line's amount with a \$0.

Tuition & Fees Tax Credit Line 49 > Form 8863

* If TP can be claimed as a dependent, but paid his or her own expenses, no one can take this adjustment (deduction). May be able to take the tax credit.

* There is both a non-refundable and a refundable portion of this credit. The software computes both.

* You must decide to use either the American Opportunity (\$4000 max expenses per student), the Hope credit (\$2400 or \$4800 per student) or the Lifetime Learning credit (\$10,000 per return).

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