

Income

Taxwise Online

IRS Training Workbook

INCOME

IRS Training Workbook

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Taking This Course

This book contains the information presented in the media versions of the lesson in a readable format. This allows you to follow along with the lesson and take notes. This manual can be used as a teaching resource later.

Each lesson includes a video presentation and a manual; all videos are interactive. In order to get credit for the lesson, listen to the recording and answer the questions.

There is additional information on SFS University under PrepWise; if you need additional information on preparing a tax return or tax laws please refer to the lessons on Link and Learn.

Objectives

After completing this lesson, you should be able to:

- Add forms to report income
- Type the client's income into the TaxWise Online program

Wages, Salaries, Tips, etc.

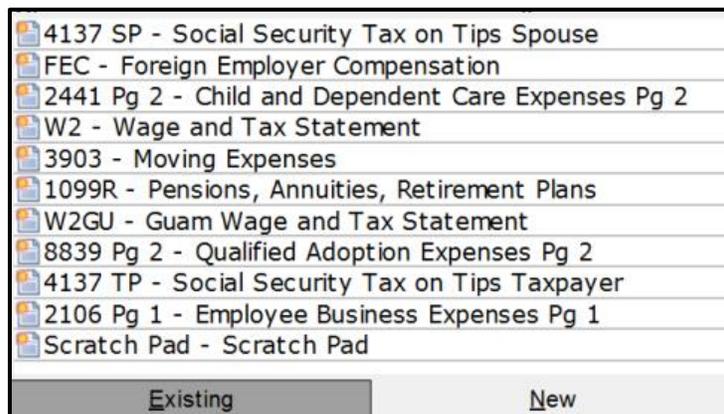
The Intake and Interview sheet asks the taxpayer about common types of income. As you go through the lines in this section of the return, confirm with the taxpayer whether he or she received this type of income. If the taxpayer was unsure about any of the questions on the intake sheet, use your resource materials to determine if the taxpayer had the income. Make corrections on the Intake sheet as needed.

There is a diagram in the yellow TaxWise Online Income tabs of the IRS Publication 4012 that reminds you where to link and how to enter the various income items in TaxWise Online.

Form W-2

To add **Form W-2** in TaxWise Online, use the following steps:

1. Open a return and go to **Form 1040, Pg 1**.
2. Scroll to line 7
3. Click the **Link** icon  located to the right of the entry box.
4. Click the New button.
5. Select Form W-2 from the forms list to add it to the return.



TaxWise Online displays the **Wage and Tax Statement** form:

US W-2		Wage and Tax Statement		2013	
This W2 statement is for the: <input checked="" type="radio"/> Taxpayer <input type="radio"/> Spouse					
Employee's name: <u>Sample A Client</u>			Employee's SSN: <u>276-54-9635</u>		
<input type="checkbox"/> Check if this W2 is handwritten, altered, or appears not to be a true W-2.					
<input checked="" type="checkbox"/> Check if this is the taxpayer's address shown on the W-2 or					
<input type="checkbox"/> Check and make changes to the U.S. address or foreign address below.					
U.S. address		<u>225 Chastain Meadows Ct</u>			
Zip code, city, and state		<u>30144</u>	<u>KENNESAW</u>	<u>GA</u>	
Foreign street address		<u></u>			
Foreign city		<u></u>			
Foreign province / state		<u></u>			
Foreign Zip code		<u></u>			
Foreign country code		<u></u>			
<input type="checkbox"/> Please verify the Federal withholding, social security withholding, and Medicare withholding. The amounts exceed the Publication 15 guidelines.					
<input type="checkbox"/> Check to take calculations off of lines 3, 4, 5, and 6.					
<input type="checkbox"/> Check to take calculations off of line 16, state wages.					
<input type="checkbox"/> The taxpayer / spouse ID number listed on the Main Information Sheet is an ITIN. Enter the ID number (SSN or ITIN) as it is shown on the actual W-2 <u></u>					
a Control number: <u></u>		Corrected W2 (W-2C): <input type="checkbox"/>			
b Employer ID: <u>12-2345678</u>		1 Wages, tips, etc.		2 Federal tax withheld	
Name code: <u>SAMP</u>		<u>0</u>		<u>1200</u>	
c Employer's name		3 Social security wages		4 Social security tax withheld	
<u>Sample</u>		<u>0</u>		<u>0</u>	
Employer's U.S. address		<u></u>			
<u>1 Sample Rd</u>		<u></u>			

Complete the Form W-2 and TaxWise Online carries the information to Form 1040, line 7. Always “Key What You See” when typing Form W-2s. The TaxWise Online Form W-2 should contain all the information that’s on the paper Form W-2. Some of the fields may not seem important, but can have a big effect on automatic calculations for other items.

For example, if you forget to type the codes and amounts in **Box 12**, TaxWise Online won’t know to prompt you for the Retirement Saver’s credit. If you type the **state income tax information**, TaxWise Online automatically carries it to Schedule A to be used if the taxpayer is able to itemize deductions.

When inputting a Form W-2 into TaxWise Online, do not forget to indicate whether it belongs to the taxpayer or the spouse. If you do not select one or the other, the program assumes it’s for the primary taxpayer. This can cause problems for other computations, such as the Child & Dependent Care Credit.

If the taxpayer or spouse has an ITIN and their Form W-2 shows a different number in the SSN block, you need to type the SSN shown on the actual Form W-2. If the Taxpayer or Spouse has an ITIN, the Taxpayer/Spouse ID number line becomes a required entry. You must enter the SSN as it appears on the W-2. The TaxWise Online Form W-2 should match the paper Form W-2.

Once you type the amount in the Form W-2 Box 1, TaxWise Online automatically fills in Boxes 3 and 5 with the same amount, and calculates the Social Security and Medicare withholding. If the Box 1 Wage amount is different from the amounts shown in Box 3 and Box 5, select the check box at the top to take the calculations of Boxes 3, 4, 5, and 6. Then you can manually type the correct amounts.

What if the taxpayer has a question about their Form W-2, or thinks the figures are incorrect? He or she needs to go back to their payroll office and get a corrected Form W-2 if necessary. You must type the figures as shown on the Form W-2.

Always double-check your entries before finishing up Form W-2. Make sure you typed the wages and withholding correctly, and that you entered all the information from all the boxes in Form W-2.

Form 1098-T

Form 1098-T amounts that were not used for qualified education expenses, should be recorded on Form 1040, line 7. Scholarship amounts used for personal living expenses must be reported as taxable income.

Scholarships are excluded from income if they are used for tuition, fees, books and equipment required for courses at the school. Amounts used for room and board or other personal expenses are taxable income, and are included on Line 7 of the tax return.

Any of the taxable scholarship amounts not on Form W-2 should be addressed on the **Taxable scholarship** line located directly below Form 1040, line 7:

Income	
7 Wages, salaries, tips, etc.	AB <input type="checkbox"/> FB <input type="checkbox"/> DCB <input checked="" type="checkbox"/> SNE <input type="checkbox"/> SSHIP <input checked="" type="checkbox"/> <input type="text" value="0"/>
Taxable scholarship not on Form W2	<input type="text" value="0"/>
Household employee income not on Form W2	<input type="text" value="0"/>

Use the  Link to the right of 'Taxable scholarship not on Form W-2' under line 7 and select the New button. Select form **1040 WKT1- Social Security, Other Income Worksheet to add it to the return.** Then type the scholarship income in the **Additional Earned Income** section:

US	1040, 1040A, 1040EZ, 1040NR, and 1040NR-EZ Income Worksheet	2013	
Name:	<input type="text"/>	SSN: <u>275-54-9635</u>	
Interest. List all interest on Schedule B, regardless of the amount.			
Unemployment compensation. Fill out 1099G worksheet.			
Additional Earned Income	Taxpayer	Spouse	Total
Scholarship income - no W2	<u>0</u>	<u>0</u>	<u>0</u>
Household employee income - no W2	<u>0</u>	<u>0</u>	<u>0</u>

Household Employee Income

Any household employee amounts should be recorded on the **Household employee income not on Form W2** line located directly below Form 1040, line 7:

Income							
7	Wages, salaries, tips, etc.	AB <input type="checkbox"/>	FB <input type="checkbox"/>	DCB <input checked="" type="checkbox"/>	SNE <input type="checkbox"/>	SSHIP <input checked="" type="checkbox"/>	<u>0</u>
	Taxable scholarship not on Form W2						<u>0</u>
	Household employee income not on Form W2						<u>0</u>



Use the  link on the taxpayer or spouse field to link the **1040 WKT1- Social Security, Other Income Worksheet** and type the household employee income in the **Additional Earned Income** section:

US	1040, 1040A, 1040EZ, 1040NR, and 1040NR-EZ Income Worksheet	2013	
Name:	<input type="text"/>	SSN: <u>275-54-9635</u>	
Interest. List all interest on Schedule B, regardless of the amount.			
Unemployment compensation. Fill out 1099G worksheet.			
Additional Earned Income	Taxpayer	Spouse	Total
Scholarship income - no W2	<u>0</u>	<u>0</u>	<u>0</u>
Household employee income - no W2	<u>0</u>	<u>0</u>	<u>0</u>

Schedule B

Use Schedule B for all interest and dividend income, even if the amount is \$1500 or less. If Schedule B does not have to be filed because the \$1500 rule or other requirements are not met, TaxWise Online does not print Schedule B with the tax return or include it in the IRS

electronic file. TaxWise Online does include the interest and dividend income on the correct lines of the tax return.

Interest Income

Interest income amounts are addressed on the **Taxable interest** or **Tax-exempt interest** sections located on line 8a and 8b:

7	Wages, salaries, tips, etc.	AB <input type="checkbox"/>	FB <input type="checkbox"/>	DCB <input type="checkbox"/>	SNE <input type="checkbox"/>	SSHIP <input type="checkbox"/>	0
	Taxable scholarship not on Form W2						0
	Household employee income not on Form W2						0
8a	Taxable interest						0
b	Tax-exempt interest						0

The yellow TaxWise Online Income tab in IRS Publication 4012 has more information on entering interest income.

From line 8a or 8b, link to the **Sch B- Interest and Ordinary Dividends Income**:

US Schedule B		Interest and Ordinary Dividends		2013
Name: <u>Sample Client</u>		SSN: <u>275-54-9635</u>		
Part I: Interest				
1a Seller-financed mortgages				
Interest income from seller-financed mortgages and the buyer used the property as a personal residence. Show the buyer's name, address, and social security number.				
Name: _____		ID number: _____		
Address: _____		Amount: _____ 0 _____ 0		
State Information for seller-financed mortgage interest				
Joint amount: _____ 0		Spouse amount: _____ 0		
Other interest				
Payer. If the payer is a brokerage firm, list the firm's name as the payer.				Amount
b	_____			0
c	_____			0
d	_____			0
e	_____			0
f	_____			0
* g	_____			0
* The interest from Schedules K-1 transfers to line g. If you are using the interest statement, check here <input type="checkbox"/> AND manually enter: _____ 0 for the taxpayer and _____ 0 for the spouse on the statement as K-1 interest.				
Subtotal				<u>0</u>

Once you load the Schedule B, you should use the Schedule B Interest and Dividend statements regardless of the number of items you must list. The Schedule B Interest and Dividend statements have additional fields for state adjustments, penalties, federal withholding, etc., when needed.

From line 1b, link to the **Interest Stmt- Schedule B Line 1b Interest Income** worksheet and type the interest income:

US Schedule B		Interest Received					2013		
Amounts shown in Box 8 should not be entered in the "Box 1 or 3 amount" column. Instead, enter an "E" in the "NAEOB column" and the amount from Box 8 in the "NAEOB amount" column.									
Payer	Box 1 or 3 amount	TSJ	State adjust +/-	Amount	NAE OB	NAEOB amount	AMT PAB	Early penalty	Federal withheld
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0

NAEOB codes are explained in IRS Publication 4012 in the yellow TaxWise Online income section.

To report foreign tax credit shown on Forms 1099-INT, -DIV and -B see the instructions for Line 47: Foreign Tax Credit discussed later.

Interest income that is tax-exempt should be reported in the **NAEOB amount** column of the Interest Statement, using code "E" for exempt.

It is important to link the TaxWise Online interest statement to Schedule B. Failure to do so can lead to miscalculations. Correct use of the worksheet insures that the income is taxed correctly on either federal or state returns.

Dividends

Dividend amounts are addressed on Form 1040, lines **9a- Ordinary dividends or 9b – Qualified dividends** listed on Schedule B:

9a	Ordinary dividends including qualified dividends from Forms 8814, listed on Schedule B	<u>0</u>	<u>0</u>
b	Qualified dividends including qualified dividends from Forms 8814, listed on Schedule B	<u>0</u>	
	Qualified dividends from Schedules K-1 are included on line 9b. Do NOT list these amounts on Schedule B	<u>0</u>	<u>0</u>

The yellow TaxWise Online Income tab in IRS Publication 4012 has more information on entering dividend income.

From line 9a or 9b, link to the **Sch B- Interest and Ordinary Dividends Income**. From Schedule B line 5a, link to the **Dividend Stmt- Schedule B Line 5 Dividend Income** worksheet and type the dividend income:

US Schedule B		Dividend Income							2013	
Payer	Ordinary dividends	Qualified dividends	State adjust TSJ	+/- Amount N	Capital gain	1250 gain	28% gain	Fed. with.	Exempt int. div.	AMT PAB
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0
	0	0		0	0	0	0	0	0	0

It is important to link the TaxWise Online dividend statement from Schedule B. Failure to do so can lead to miscalculations. Correct use of the worksheet insures that the income is taxed correctly.

TaxWise Online adds up the dividend statement information and displays the total dividend income on Schedule B and on Form 1040. Capital gains distributions will be included with any other capital gain or loss on Schedule D, or carried directly to Line 13 of the Form 1040 if no Schedule D is required. Even if the total dividend amount is less than \$1,500, use the dividend statement to identify which (if any) items qualify for the qualified dividend and capital gains distribution tax rates.

Each box of the dividend statement is explained in the yellow TaxWise Online Income section in IRS Publication 4012.

State and Local Refunds, Credits, and Offsets

A portion of a state income tax refund may need to be included in taxable income if the taxpayer itemized on last year's return and deducted state income tax paid. Taxable refunds, credits, or offsets of state and local income taxes are addressed on line 10- **Taxable refunds, credits, or offsets of state and local income taxes** on Form 1040, Pg 1.

<p>Did you itemize deductions last year and receive state or local tax refunds, credits, or offsets? Answer "No" if you deducted state sales tax instead of state income tax</p> <p style="text-align: right;"><input checked="" type="radio"/> Yes <input type="radio"/> No</p>	
10	<p>Taxable refunds, credits, or offsets of state and local income taxes.</p> <p>F9 for worksheet</p>
	0

Do not type refunds directly on line 10.

From line 10, link to the **St Tax Refund- State Tax Refund** worksheet:

US 1040	State Tax Refund Worksheet	2013	
Name: <u>Sample Client</u>		SSN: <u>275-54-9635</u>	
Use the spouse column if this is a married joint return for this year and the spouse filed separately last year.		Joint or Taxpayer	Spouse
		Taxable	
1	2012 state / local income tax refund	0	0
	2012 state / local income tax refund	0	0
	Total state / local income tax refund for 2012	0	0
2	Enter amounts from the 2012 tax return		
	Schedule A, line 5a, income taxes	0	0
	Schedule A, line 5b, general sales tax	0	0
	Difference - the state tax refund is only taxable to the extent the state tax deduction exceeds the sales tax deduction	0	0
3	Net state / local income tax refund	0	0
4	Enter the total of all other Schedule A refunds or reimbursements	0	0
5	Add lines 3 and 4	0	0
	On the 2012 tax return, If itemized deductions are reduced due to income limitations, AMT is included, or there are unused credits, see Publication 525. Some or all of the state tax refund may be tax-free. Check here if the ENTIRE state tax refund is nontaxable. Stop here	<input type="checkbox"/>	<input type="checkbox"/>
6	2012 itemized deductions	0	0
7	Filing status for 2012. Enter 1, 2, 3, 4, or 5.		

State income tax refunds are reported on Form 1099 G. Do not confuse them with unemployment. It is important to complete this worksheet because all or part of the refund may not be taxable.

Business Income or Loss

Taxpayers who have self-employment income, must report that income in their tax return. **Review the Schedule C-EZ criteria in the yellow TaxWise Online Income tabs of your IRS Publication 4012 to see if you are able to help a client with self-employment income.**

Business income or loss should be recorded on line 12- Business income or (loss) on Form 1040, Pg 1.

From line 12, press the  to link to the **Sch CEZ-Sole Proprietors Net Profit** or to the **Schedule C**:

11	Alimony received		0
12	Business income or (loss)		0
13	Capital gain or (loss)		0

Schedule D not required:



Schedule C-EZ or Schedule C

Although Schedule C is generally out of scope, Schedule C may be prepared for taxpayers who meet the criteria for the Schedule C-EZ. Go through the criteria for Schedule C-EZ prior to starting the taxpayer's return. If the taxpayer has employees or otherwise does not qualify to use the Schedule C-EZ, the taxpayer should be referred to a professional.

Although Schedule C can be prepared in limited circumstances, depreciation is out of scope due to its complexity. The taxpayer cannot skip the depreciation, as this has a detrimental tax impact in later years. Once all income and expense information is typed on Schedule C-EZ or Schedule C, TaxWise Online displays the total on line 12 of Form 1040. In addition TaxWise Online calculates the self-employment (SE) tax and the adjustment for the deductible part of the SE tax.

Review the criteria at the top of the Schedule C-EZ, or in the yellow TaxWise Online Income tabs of your IRS Publication 4012 to see if you are able to help a client with self-employment income.

When using Schedule C or C-EZ; be sure to indicate at the top of the form whether the business belongs to the taxpayer or the spouse. If you don't indicate it correctly, the taxpayer with the business may miss out on Social Security credit for their earnings, and automatic calculations for things like Child and Dependent Care credit won't have the right information.

To find **Principal Business Codes**, press the **F1** key for TaxWise Online Help while in the Schedule CEZ or Schedule C. The list is available under **Business Codes**. If unavailable, go to Form 1040 instructions for Schedule C.

Windows **Copy** (Ctrl+C) and **Paste** (Ctrl+V) functions work in TaxWise Online and are helpful for Business Codes.

Figuring Net Profit

Type the gross receipts on the appropriate section of Line 1 of the Schedule C-EZ or Schedule C.

Example of Schedule CEZ:

Part II: Figure Your Net Profit	
If you are a minister who can only claim a portion of their expenses, F9 on line 2 for the worksheet for allowable deductions.	
Do not mix statutory employee income and non-employee income on the same Schedule C-EZ.	
1	Gross receipts 0
If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, check here <input type="checkbox"/>	
2	Total expenses. If more than \$5,000, use Schedule C 0
3	Net profit. If less than -0-, you MUST use Schedule C 0

Example of Schedule C:

Part I: Income F9 on line 1 to use Form 1099-MISC.	
1	Gross receipts or sales 0
If this income was reported to you on Form W2 and the "Statutory employee" box on that form was checked, check here <input type="checkbox"/>	
2	Returns and allowances (see instructions) 0
3	Subtract line 2 from line 1 0
4	Cost of goods sold from line 42 on page 2 0
5	Gross profit. Subtract line 4 from line 3 0
6	Other income, including Federal and state gasoline or fuel tax credit or refund 0
7	Gross income. Add lines 5 and 6 0

Scratch Pad for Other Income

All business income must be reported on the Sch C or C-EZ, even if the payment was in cash or the taxpayer did not receive a Form 1099-MISC. To open a scratch pad for other income, go to line 1 of Schedule CEZ or Schedule C:

Example Schedule CEZ:

1	Gross receipts		0
	If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, check here	<input type="checkbox"/>	
2	Total expenses. If more than \$5,000, use Schedule C		0
3	Net profit. If less than -0-, you MUST use Schedule C		0

Example Schedule C:

Part I: Income F9 on line 1 to use Form 1099-MISC.			
1	Gross receipts or sales		0
	If this income was reported to you on Form W2 and the "Statutory employee" box on that form was checked, check here	<input type="checkbox"/>	
2	Returns and allowances (see instructions)		0
3	Subtract line 2 from line 1		0
4	Cost of goods sold from line 42 on page 2		0
5	Gross profit. Subtract line 4 from line 3		0
6	Other income, including Federal and state gasoline or fuel tax credit or refund		0
7	Gross income. Add lines 5 and 6		0

Expenses

Link to a **NEW Scratch Pad** from line 2 of Schedule CEZ and type a title, such as the principal business name used on Schedule CEZ, describe each expense and list the amounts for each. TaxWise Online totals all the expenses and transfers the total to line 2 of Schedule CEZ:

Detail Sheet		2013
Name: <u>Sample Client</u>		SSN: <u>275-54-9635</u>
Description: _____		
Type		Amount
_____		0
_____		0
_____		0

To type expenses for the Schedule C, go to Part II of the Schedule C. If you need additional expenses then go to the Other Expenses section on Page 2 of the Schedule C Part V.

Part II: Expenses		
If you are a minister who can only claim a portion of their expenses, F9 on line 27a for the worksheet for allowable deductions.		
8	Advertising	0
9	Car and truck expenses	0
10	Commissions and fees	0
11	Contract labor	0
12	Depletion	0
13	Depreciation and section 179 expense deduction	0
14	Employee benefit programs (other than on line 19)	0
15	Insurance, other than health	0
16	Interest	
a	Mortgage (paid to banks, etc.)	0
b	Other	0
17	Legal and professional services	0
18	Office expense	0
19	Pension and profit-sharing plans	0
20	Rent or lease	
a	Vehicles, machinery, and equipment	0
b	Other business property	0
21	Repairs and maintenance	0
22	Supplies not included in Part III	0
23	Taxes and licenses: <u> 0</u>	0
	less Form 8846 credits: <u> 0</u>	0
24	Travel, meals, and entertainment	
a	Travel	0
	Meals and entertainment: <u> 0</u> at 50%	
	<u> 0</u> at 80% - DOT hours of service	
	<u> 0</u> at 100% - See instructions.	
	Total meals and entertainment	0
	Nondeductible amount	0
b	Deductible meals and entertainment	0

Vehicle Mileage for Schedule C-EZ

For tax year 2013, the business mileage rate is 56.5 cents per mile.

TaxWise Online computes the vehicle expense at the standard mileage rate when Part III is completed. Include this amount by typing the expense on the Scratch Pad opened from line 2 of Schedule CEZ. This does not automatically carry forward.

Compute mileage before linking to the Expense Scratch Pad. Add as a line 2 expense on a scratch pad. You can copy and paste the mileage amount calculated from Part III to the scratch pad.

Vehicle Mileage for Schedule C Part IV: Information on Your Vehicle is on Page 2 of the Schedule C. TaxWise Online calculates and displays the deductible mileage expense on line 9 on page 1.

Self-Employment Tax

Self-employment tax and the adjustment of the deductible part of the self-employment tax are automatically calculated and carried to the appropriate forms when using Taxwise Online.

Schedule D Capital Gain or (Loss)

Schedule D and Form 8949

- Assets can no longer be typed on the Schedule D
- All asset information is reported on Form 8949
- Form 8949 is a six page form 3 pages the handle each transaction type for A, B or C for short term Assets and 3 pages to handle each transaction type for D, E or F for long term Assets
- The Capital Gains worksheet populates the assets to the appropriate page of Form 8949
- Long Term/Short Term Capital Gains Worksheet list all assets
- Each asset sold should be issued a Form 1099. The Form 1099 has an A/B/C designator on it
- The new A/B/C indicator is recorded on the Capital Gains worksheet under the **1099** column

After determining if the taxpayers must report the sale of investments or the sale of a home, Schedule D is used to report the capital gains or losses on their tax return.

Capital gain or loss should be recorded on Form 1040, line 13:

12	Business income or (loss)		0
13	Capital gain or (loss)	Schedule D not required: <input type="checkbox"/>	0 x
14	Other gains or (losses)	Form 4684 only: <input type="checkbox"/>	0

The yellow TaxWise Online Income tab in IRS Publication 4012 has more information on entering capital gains & losses.

Volunteers should link to the Cap Gain/Loss worksheet to enter all asset sales. The information will flow automatically to the appropriate Form 8949, and to Sch D. The information below is from the Tax Year Updates information provided to SPEC.

From Form 1040, line 13, link to the **Sch D Pg 1- Capital Gain and Losses Pg 1** worksheet:

US Schedule D	Capital Gains and Losses			2013
Name: <u>Sample Client</u>		SSN: <u>275-54-9635</u>		
<p>Check one of the boxes below if you want to attach an acceptable substitute list of transactions in lieu of listing each transaction individually. Form 8949 must be filed with the appropriate box (A, B, or C) checked. Enter the combined totals on the Capital Gain / Loss worksheet. Use a separate line to list the total of each type of transaction (A, B or C). See the instructions for more information.</p>				
Check here if you want to attach a substitute list to Form 8453				<input type="checkbox"/>
Check here if you want to attach a PDF of the substitute list to the e-file				<input type="checkbox"/>
<p>If you are preparing a return for a state that lists out all capital gain / loss transactions, do not use lines 1a or 8a. You must use the capital gain / loss worksheet to ensure all transactions are calculated on the state return.</p>				
Part I: Short-term Capital Gains and Losses - Assets Held One Year or Less				
<p>Link to page 1 of Form 8949 from line 1b, 2, or 3 below or link to the Capital Gain / Loss worksheet from the short-term sales line.</p>	(d) Sales price	(e) Cost or other basis	(g) Adjustments to gain or loss	(h) Gain or loss
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b	<u>0</u>	<u>0</u>		<u>0</u>
b Totals for all transactions reported on Form(s) 8949 with box A checked	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
2 Totals for all transactions reported on Form(s) 8949 with box B checked	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Link from line 1 of the Schedule D to Form 8949 page 1A:

US 8949 Sales and Other Dispositions of Capital Assets 2012

Name: Sample Client SSN: 275-54-9635

Link to the Capital Gain or Loss Transactions Worksheet from any entry on line 1 below or check here to remove calculations if you want to manually enter short-term transactions

Part I: Short-term Capital Gains and Losses - Assets Held One Year or Less

A separate Form 8949 must be completed for each type of transaction. Only transactions with code "A" (1099-B received - basis reported to the IRS) will be calculated on this form.

A Short-term transactions reported on Form 1099-B (or substitute statement) and cost or other basis was reported to the IRS

If you need to list more than 16 transactions, you can duplicate this form as needed. If you duplicate this form to list more than 16 transactions, you must enter a sequential copy number on each duplicate form. The first duplicate should be numbered 2, the next should be numbered 3, and so on. Enter the copy number for this form here

1	(a) Description of property	T S J	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or other basis	(f) Code	(g) Adjustments to gain or loss	(h) Total gain or loss
					0	0		0	0
					0	0		0	0
					0	0		0	0
				(calculated)	0	0		0	0
					0	0		0	0
					0	0		0	0
					0	0		0	0
					0	0		0	0
					0	0		0	0

Link from line 1 of the Form 8949 link to the **Capital Gain or Loss Transaction Worksheet**.

US Schedule D Capital Gain or Loss Transactions Worksheet 2013

1099 column: Enter "A" for transactions reported on Form 1099-B with the basis reported to the IRS, enter "B" for transactions reported on Form 1099-B but the basis is not reported to the IRS, enter "C" for transactions for which you cannot enter A or B.

* Check if 28% rate gain or (loss).

(a) Description of property	1 T 0 S * 9 J 9	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or other basis	(f) Code	(g) Adjustments to gain or loss	(h) Gain or loss	S / L
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	
				0	0		0	0	

TaxWise Online suggests recording all transactions on the Capital Gain or Loss Transaction Worksheet, which populates the transactions to the appropriate page of Form 8949.

For short-term transactions, on page 1, type *A* in the **1099** column if Form 1099-B box 3 shows the basis, type *B* if Form 1099-B box 3 does not show the basis, or type *C* if Form 1099-B was not received for the transaction. For long-term transactions, type code *D* if Form 1099-B box shows the basis, type *E* if the basis is not shown, or type *F* if Form 1099-B was not received.

Transactions are considered “short-term” if the asset was held one year or less. The transaction is “long-term” if the asset was held more than one year. Once the acquisition and sale dates have been entered into the Capital Gain or Loss Transaction Worksheet, TaxWise Online will correctly report the transactions as short- or long-term.

Refer to The yellow TaxWise Online Income tab in IRS Publication 4012 for details to enter the information on the worksheet from Form 1099-B

If the Form 1099-B shows federal income tax withholding in box 4, this information must be included on Form 1040, line 62, by linking to a scratch pad and typing the amount. Type all transactions on the worksheet. TaxWise Online determines the gain or loss and whether each is short or long term.

Special rules apply to the basis and holding period of assets inherited in 2010. Unless the taxpayer can provide the basis and date acquired, taxpayers who sold property inherited in 2010 should be referred to a professional.

Capital Loss Carryovers

A taxpayer cannot take net losses of more than \$3,000 (\$1,500 for married taxpayers filing separately) in figuring taxable income for any taxable year. To carry over a loss from the prior year, you need the Capital Loss Carryover worksheet from the prior year. The carryover amount is typed on Schedule D, line 6, for short term, or line 14, for long term.

Sale of Personal Residence

The sale of the taxpayer’s home must be manually reported on the Schedule D, Worksheet 2, if there is taxable gain or if the taxpayer was issued a Form 1099-S.

To load the Schedule D Worksheet Pg 2, use the following steps:

6. Do one of the following:
 - Click the **Add** button at the top of the form list.
 - Taxwise Online displays the **Add a Form** screen.
7. Type **Sch D Wkt 2** in the **Search for** box and click the **Add** link.

Schedule D does not load Worksheet 1 or Worksheet 2 automatically.

TaxWise Online displays **Schedule D- Worksheet for Capital Loss Carryovers or Sale of Your Home**:

US Schedule D Worksheet for Capital Loss Carryovers or Sale of Your Home		2013
Name:	Sample Client	SSN: 275-54-9635
Capital Loss Carryovers from This Year to Next Year		
1	Amount from Form 1040, line 41, or Form 1040NR, line 39	0
2	Loss shown on Schedule D, line 21, as a positive amount	0
3	Combine lines 1 and 2. If -0- or less, enter -0-	0
4	Smaller of line 2 or line 3	0
5	Loss shown on Schedule D, line 7 as a positive amount	0
6	Gain, if any, shown on Schedule D, line 15	0
7	Add lines 4 and 6	0
8	Short-term capital loss carryover. Subtract line 7 from line 5. If -0- or less, enter -0-	0
9	Loss shown on Schedule D, line 15 as a positive amount	0
10	Gain, if any, shown on Schedule D, line 7	0
11	Subtract line 5 from line 4. If -0- or less, enter -0-	0
12	Add lines 10 and 11	0
13	Long-term capital loss carryover. Subtract line 12 from line 9. If -0- or less, enter -0-	0
Sale of Your Home		
1	Date main home was sold: _____ Acquisition date: _____	
2	If Form 8828 is also needed for this sale, check here	<input type="checkbox"/>
3	If any part of the main home was ever rented out or used for business, see instructions. If part of the sale is a sale of business property, report the business portion using a depreciation worksheet, and report the personal portion below and skip line 9.	
4	Selling price of home	0
5	Selling expenses	0
6	Amount realized	0
7	Adjusted basis of home sold	0
8	Gain on the sale. If -0- or less, enter -0-	0

If any part of the home was ever used for business or rental, refer the taxpayer to a professional.

Complete this form appropriately. You must manually type the results on the Capital Gain or Loss Transaction Worksheet. Search IRS Codes in Program Help for the appropriate adjustment code if the taxpayer is eligible to exclude some or all of the gain on the sale of a main home.

From Form 1099-R, box 7 code, press the **F1** key for program help and search IRS Codes for an explanation of the code used. Pub 4012 also has directions for entering information.

Caution: Taxable disability payments are reported as wages until the taxpayer reaches minimum retirement age. If box 7 has code 3 (Disability), determine if the taxpayer has reached the minimum retirement age for the employer. If not, on the TaxWise Online 1099-R select the **Check if disability and the taxpayer is disabled** check box. This causes the income to be included as wages on Line 7 of the Form 1040.

Complete Form 1099-R correctly and TaxWise Online displays the amounts in the correct places on Form 1040.

Exclusions

Form 1099R exclusions are typed on the **Exclusion Worksheet** at the bottom of Form 1099R:

Exclusion Worksheet	
1 Amount rolled over	<input type="text" value="0"/>
2 Amount, up to \$100,000, paid directly by the trustee of the IRA to a charitable organization. The donor must have been at least 70 1/2 when the distribution was made	<input type="text" value="0"/>
3 Amount rolled over into an HSA. This election is irrevocable and can only be done once in the recipient's lifetime	<input type="text" value="0"/>
4 Retired public safety officers - amount, up to \$3,000, paid directly from a qualified governmental plan to pay health or qualified long-term care insurance for the taxpayer, spouse, or dependents	<input type="text" value="0"/>
5 Excludable amount due to a tax-free exchange; as calculated in a previous year; or by law, is specifically tax-exempt	<input type="text" value="0"/>
* If the distribution is from a traditional, SEP, or SIMPLE IRA and you ever made nondeductible IRA contributions, check here	<input type="checkbox"/>
* If this is a conversion from a traditional IRA to a Roth IRA, check here	<input type="checkbox"/>
If only PART of this distribution was converted to a Roth IRA, enter the amount converted	<input type="text" value="0"/>

If the taxpayer received a distribution which was contributed to another eligible plan within 60 days, the amount rolled over can be excluded from income. Type the amount rolled over in line 1 of the exclusion worksheet. Another exclusion that is within scope for the volunteer program applies to retired public safety officers, who may exclude up to \$3,000 paid directly from a government retirement plan to pay insurance premiums. Type the excludable amount in line 4.

See TaxWise Online F1 Help for instructions on completing the Exclusions Worksheet.

Simplified Method

If the client's Form 1099-R does not show the taxable amount, and the IRA box is **not** checked, you may be required to use the Simplified Method to figure the taxable amount. The Simplified Method is calculated at the bottom of Form 1099R:

Simplified Method	
1 Cost in the plan at the annuity starting date (RRB line 3)	0
2 Check age of primary annuitant at annuity starting date	
<input type="radio"/> 55 or under	<input type="radio"/> 56-60
<input type="radio"/> 66-70	<input type="radio"/> 71 or older
<input type="radio"/> Check if the annuity starting date is after 11/18/1996.	<input checked="" type="radio"/> 61-65
<input type="radio"/> Check if the annuity starting date is after 12/31/1997 and this is a joint and survivor annuity. Use table below.	
Check combined age of annuitants at annuity starting date	
<input type="radio"/> 110 or under	<input type="radio"/> 111-120
<input type="radio"/> 131-140	<input type="radio"/> 121-130
<input type="radio"/> 141 or more	
3 Exclusion per month	0.00
4 Number of months for which payments were received this year	0
5 If the annuity started after 1986, enter the amount recovered tax free in prior years	0
6 Exclusion	0
7 Remaining cost in the pension or annuity	0

You must use the Simplified Method if either of the following applies:

The annuity starting date was after November 18, 1996, and the client used it last year to figure the taxable part or the annuity starting date was after December 31, 1997, and both of the following apply:

- The payments are from a qualified employee plan, a qualified employee annuity, or a tax sheltered annuity and
- On the annuity starting date, either the client was under age 75 or the number of years of guaranteed payments was fewer than five.

See Form 1040, line 16, instructions for the definition for annuity starting date. See IRS Publication 575 for the definition for guaranteed payments.

Schedule E Rental Income

After identifying if the taxpayer has any rental income, record the amounts in their return. Rental income and expenses are only within scope for military or international.

The yellow TaxWise Online Income tab in IRS Publication 4012 has more information on entering rental income.

Rental real estate and royalty income should be recorded on Form 1040, line 17:

17	Rental real estate, royalties, partnerships, S corporations, trusts, etc	0	x
18	Farm income or (loss)	0	

From line 17, link to the **Sch E Pg 1- Rent and Royalty Income or Loss** worksheet:

US Schedule E **Supplemental Income and Loss** **2013**

Name: Sample Client SSN: 275-54-9635

Part I: Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use Schedule C. Report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2013 that would require you to file Form(s) 1099?
See instructions Yes No

B If "Yes", did you or will you file all required Forms 1099? Yes No

* K-1 royalty information transfers to column C of lines 1 and 3b.
State income is allocated based on the state listed in the address section below.
If any of these properties are part-year rental, part rental and part personal, such as a duplex, or a personal use unit, such as a vacation home, F9 on the "Address" field, A or B, to use a worksheet.

For each rental real estate property listed, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a joint qualified venture. See instructions.

** Allowable codes for type of property

1 Single family residence	3 Vacation or short-term rental	5 Land	7 Self-rental
2 Multi-family residence	4 Commercial	6 Royalties	8 Other

If the personal residence was available for rent for the entire year, the income and expenses are reported on Schedule E.

Part-Year

If the taxpayer rented a personal residence for part of the year or rented a portion of the personal residence, the expenses must be divided between rental use and personal use. This

Unemployment Compensation

Unemployment compensation generally includes any amount received under an unemployment compensation law of the United State or of a state. In most cases, it is taxable.

Unemployment compensation should be recorded on Form 1040, line 19:

19 Unemployment compensation	0 x
Repayment of 2013 unemployment compensation	0 0

From line 19, link to the **Unemployment Benefits Received** worksheet:

US 1099-G	Unemployment Benefits Received Worksheet	2013
This 1099G worksheet is for the: <input type="radio"/> Taxpayer <input type="radio"/> Spouse		
1 Payer's name	<input type="text"/>	
Payer's EIN	<input type="text"/>	
2 Unemployment benefits received		<input type="text" value="0"/>
3 Repayment of unemployment benefits received in 2013 and repaid in 2013		<input type="text" value="0"/>
Repayment of pre-2013 unemployment benefits must be manually entered on Schedule A, line 23.		
4 Taxable unemployment benefits		<input type="text" value="0"/>
5 Federal income tax withheld		<input type="text" value="0"/>
6 <input type="text"/> state income tax withheld		<input type="text" value="0"/>

Type the Form 1099-G, box 1 amount on line 2 and the box 4 amount on line 5. The withholding amount is included on the Form 1040, page 2.

Social Security Benefits

Social Security benefits are payments made under Title II of the Social Security Act. They include OASDI (old-age, survivors, disability insurance), and some workers' compensation benefits.

The yellow TaxWise Online Income tab in IRS Publication 4012 has more information on entering Railroad Retirement, Civil Service, and Social Security income.

Social Security benefits should be recorded on Form 1040, line 20a:

18	Farm income or (loss)			<u>0</u>
19	Unemployment compensation		<u>0</u>	<u>0</u>
	Repayment of 2013 unemployment compensation		<u>0</u>	<u>0</u>
20a	Social security benefits		<u>0</u> x	
b	Taxable amount	D <input type="checkbox"/>	LSE <input type="checkbox"/>	<u>0</u>

From line 20a, link to the **1040 Wkt1-Social Security, Other Income** worksheet:

US	1040, 1040A, 1040EZ, 1040NR, and 1040NR-EZ Income Worksheet	2013	
Name:	<u>Sample Client</u>	SSN: <u>275-54-9635</u>	
Interest.	List all interest on Schedule B, regardless of the amount.		
Unemployment compensation.	Fill out 1099G worksheet.		
Additional Earned Income	Taxpayer	Spouse	Total
Scholarship income - no W2	<u>0</u>	<u>0</u>	<u>0</u>
Household employee income - no W2	<u>0</u>	<u>0</u>	<u>0</u>
Social Security and Railroad Tier 1 Benefits	Taxpayer	Spouse	Total
Social security received this year	<u>0</u>	<u>0</u>	
Railroad tier 1 received this year	<u>0</u>	<u>0</u>	
Total before Medicare or Federal tax withheld	<u>0</u>	<u>0</u>	<u>0</u>
Medicare Parts B, C, and D to Schedule A (only if you are not deducting this amount as self-employed health insurance)	<u>0</u>	<u>0</u>	
Federal tax withheld	<u>0</u>	<u>0</u>	

When typing information from Form SSA 1099, be sure to include both Medicare B and D payments on the **Medicare to Schedule A** line.

Lump-sum Social Security benefits

Lump-sum Social Security benefits are within scope for the volunteer program.

Lump Sum Payment of Social Security and Railroad Tier 1 Benefits			
Fill in the total lump sum received above.	Taxpayer	Spouse	Total
Gross amount received attributable to 2013	0	0	0
Using the above modified AGI, this is the taxable amount of the 2013 benefits			0
Amounts taxable from previous years	F9 to worksheet		0
Taxable benefits using the lump-sum election method			0

If a lump-sum (retroactive) payment of benefits is received, the taxpayer can choose to use the Social Security worksheet to calculate the taxable portion of the entire payment, even though some of the benefits are from an earlier year. If it results in less tax, the taxpayer can figure the taxable portion of the lump-sum payment for an earlier year separately, using their income from the earlier year. The taxable portion figured using the lump-sum election is included with the 2013 income, so no amended return is required. To use the lump-sum election, link from the bottom of the TaxWise Online Social Security worksheet to the Lump-sum Worksheet. The taxpayer must have his prior year return in order to use the lump-sum method.

US 1040	Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment	2013
Name: <u>Sample Client</u>	SSN: <u>275-54-9635</u>	
Enter the earlier year for which benefits were received in 2013 <u> </u>		
What was the filing status on the earlier year tax return?		
a <input type="radio"/> Married filing jointly.		
b <input type="radio"/> Married filing separately and you lived with your spouse at anytime during the earlier year.		
c <input checked="" type="radio"/> Neither a nor b.		
Use this worksheet for a year after 1993.		
1 Enter the total amount of social security or RR tier 1 received for the earlier year and reported on your tax return(s) for that year	<u> 0</u>	
Enter the amount of lump-sum payment for the earlier year received this year	<u> 0</u>	<u> 0</u>
2 One-half of line 1		<u> 0</u>
3 Enter the adjusted gross income reported on the tax return for the earlier year		<u> 0</u>
4 Enter total exclusions/adjustments claimed in earlier year on Forms 8815, 8839, 2555, or 2555EZ. Also include any student loan interest deduction and certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico		<u> 0</u>

Other Income

Other income is anything that does not have its own line on Form 1040 including: Prizes and awards Gambling winnings, including lotteries and raffles, Alaska Permanent Fund dividends, and jury duty fees (report only jury duty pay, not travel reimbursement.) Other income may be reported to the taxpayer on form 1099-MISC, box 3.

Other income should be reported on line 21 of Form 1040:

21 Other income.
 *Type:
 * Amounts from Forms W2G, 1099M, 2555, 2555-EZ, 6478, 8814, 8853, 8889, ESAs, QTPs, recovery of itemized deductions, and NOLs transfer to the other income worksheet. If you need to list other income, F9 on line 21 to access the worksheet and enter the income on the lines provided.
 22 Total income (Earned:

Form W-2G income reported on Form 1040, line 21, TaxWise Online will auto fill in the GAMBLNG WINNINGS type on the 1040 line 21 once the W-2G loads to the return. If you link to the W-2G from Line 21, the 1040 Worksheet 7 will automatically load with the totals calculated from the W-2G(s). TaxWise Online automatically calculates and displays GAMBLING WINNINGS on line 21 of Form 1040.

From line 21, link to the **1040 Worksheet 7**:

US Form 1040 and 1040NR, Line 21: Other Income Worksheet 2013
 Name: SSN:
 TSJ (taxpayer, spouse, joint) boxes are provided for entries that are not calculated from other forms.

	TSJ	Amount
1 Gambling winnings from Form W-2G		0
2 Form 1099-MISC, lines 3, 7, and 8		0
3 Taxable distributions from education savings accounts (ESAs) and QTPs		0
4 Recovery of itemized deductions		0
5 Foreign income exclusion from Form 2555, line 45		0
6 Foreign income exclusion from Form 2555-EZ, line 18		0
7 Income addition from Form 6478, line 7		0
8 Income addition from Form 8814, line 12		0
9 Taxable Archer MSA distributions from Form 8853, line 8		0
10 Taxable Medicare Advantage MSA distributions from Form 8853, line 12		0
11 Taxable long-term care insurance contract payments from Form 8853, line 26		0
12 Taxable HSA distributions from Form 8889, line 16		0
13 Income for failure to maintain HDHP coverage from Form 8889, line 20		0
14 Jury duty pay		0
15 NOL carried forward - enter as a negative amount		0
A statement is required for e-file. F9 here for the NOL statement <input type="checkbox"/>		
16 Describe		0
17 Describe		0
18 Describe		0
19 Describe		0
20 Describe		0
21 Describe		0
22 Describe		0
23 Describe		0

Amounts reported to the taxpayer on Form 1099-Misc, Box 7 (Non-employee compensation) are self-employment income and should be reported on a Schedule C or C-EZ, not as Other Income.

If there is more than one type of other income items that are not listed on 1040 Worksheet, 7, enter the description and amount on lines 16 – 30.

Lesson Review

1. You can access form W2 by linking from the 1040 line_____?
2. To access the Capital Gain worksheet link from_____?
3. If you reported Gambling Winning on form W2G the _____ form will auto load to the return.

Summary

You should now be able to:

- Add forms to report income
- Type the client's income into the TaxWise Online program